

# Tropical Timber Market Report

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

## Contents

Central/West Africa	2
Ghana	2
South Africa	3
Malaysia	4
Indonesia	5
Myanmar	6
India	6
Brazil	8
Peru	10
Japan	11
China	16
Europe	18
North America	22
Currencies and Abbreviations	27
Ocean Freight Index	27
Price Indices	28

## Headlines

	<i>Page</i>
<b>Dull market for African timber still finely balanced</b>	<b>2</b>
<b>Investors promised litigation-free land for plantations in Ghana</b>	<b>2</b>
<b>Indonesian furniture industry weighed down by regulations and inadequate raw material supply</b>	<b>5</b>
<b>Indonesia to allow plantation log exports</b>	<b>5</b>
<b>European plywood gaining a foothold in India</b>	<b>7</b>
<b>President of Peru addresses ITTC</b>	<b>10</b>
<b>Value of global hardwood trade static at US\$35 billion</b>	<b>18</b>
<b>Africa expected to become a net wood importer</b>	<b>20</b>

## Top Story

### ITTO's 2017 Annual Market Discussion

Improving the investment climate offers an opportunity for countries seeking to expand the manufacture of wood-based added value products. When decisions are made on investments availability of natural resources and labour rank well below issues such as institutional and regulatory quality, trade openness, infrastructure quality, and economic and political stability.

Speakers at the 2017 ITTO Annual Market Discussion shared experiences on investing in tropical timber industries and tropical forestry in SE Asia, East and West Africa and Latin America

See page 24 and [www.itto/itc-53/presentations/](http://www.itto/itc-53/presentations/)

## Central and West Africa

### Dull market is still finely balanced

Producers report that, overall, markets are holding up in terms of price and volume and the recent slight downward price movements did not continue into the second half of November. However, despite being stable for now some producers are of the opinion that the market is still finely balanced and could swing either way.

Much depends on how demand in Europe holds up through the winter months and how sharply buying for the Chinese market is impacted by the Spring Festival holidays around 16 February. From past experience the slowdown in China is usually less severe when the New Year is early in the year.

Producers report that log and sawnwood prices remained unchanged at the month end.

The trade in large slabs of several species for China is currently very firm with merchantable grade slabs in sizes of 20 x 15-20 cm and lengths of 5 to 6 metres attracting FOB prices ranging from euro 320 – 360 per cubic metre and even up to euro 490 per cubic metre.

Kevazingo slabs, while in very limited supply, of 10cm to 20cm thickness are priced from euro 2,500 to euro 3,500 per cubic metre FOB.

### EU importers demanding certified timber

China continues to be the main driver of the market for West and Central African timbers and current demand is firm. As noted previously, EU importers are becoming even stricter on the traceability of logs right through the system and there is growing insistence on third party certification.

Producers say certification is very time consuming and costly and that the European markets is becoming less attractive, even for some of the larger mills.

### Price competition in Middle East markets

Middle East buyers are active and there is one report alleging a West African supplier has cut prices in an attempt to secure high sales volume. No details are yet available on the species and price level.

Prices for sapele sawnwood are now more stable and the supply from Cameroun and Congo Brazzaville is said to be sufficient to satisfy current demand however, there are problems with production of sapele and iroko sawnwood in the Central African Republic due to civil unrest and problems with transportation.

### Quota controls tightened

Millers in Congo Brazzaville say they have become aware of very strict control of the log to lumber quota with heavy fines for any infringements.

In Gabon, with the coming into office of the new minister for forests, inspections of timber companies throughout the country have been stepped up.

One of the larger operators was faced with the possibility of having part of its concession agreement cancelled for a unintentional infringement relating to the company's forest management plan. Fortunately this issue appears to have been resolved.

### Log export prices

West African logs Asian market	FOB Euro per cu.m		
	LM	B	BC/C
Acajou/ Khaya/N'Gollon	220	220	160
Ayous/Obeche/Wawa	245	240	190
Azobe & Ekki	235	235	160
Belli	250	250	-
Bibolo/Dibétou	180	170	-
Bilinga	230	230	-
Iroko	325	300	265
Okoume (60% CI, 40% CE, 20% CS) (China only)	245	240	190
Moabi	330	300	235
Movingui	210	200	160
Niove	175	160	-
Okan	230	205	-
Padouk	300	275	210
Sapele	260	260	220
Sipo/Utile	290	270	200
Tali	330	320	-

### Sawnwood export prices

West African sawnwood	FOB Euro per cu.m
Ayous FAS GMS	425
Bilinga FAS GMS	530
Okoumé FAS GMS	430
Merchantable	320
Std/Btr GMS	350
Sipo FAS GMS	540
FAS fixed sizes	560
FAS scantlings	560
Padouk FAS GMS	880
FAS scantlings	1000
Strips	645
Sapele FAS Spanish sizes	505
FAS scantlings	510
Iroko FAS GMS	630
Scantlings	710
Strips	410
Khaya FAS GMS	450
FAS fixed	470
Moabi FAS GMS	620
Scantlings	630
Movingui FAS GMS	430

## Ghana

### Investors promised litigation-free land for plantations

The Chief Executive Officer of the Ghana Forestry Commission, Kwadwo Owusu Afriyie, has said the Commission will release land for private plantation developments across the country.

This initiative will contribute to efforts to restore Ghana's depleted forest cover and generate jobs and revenue for government.

The plan is to expand public/private partnerships which deliver benefits for both government and the private sector. The Forestry Commission promises potential investors litigation-free land for medium and large scale tree plantations.

The Commission's CEO said the government wants to attract investment from local corporations and businesses but that he appreciates investing in forestry requires a long term vision but still urges Ghanaians to take up the challenge.

#### Sea port tariffs to go up in 2018

There are signs that the Ghana Ports and Harbours Authority (GPHA) intends to revise tariffs in January 2018 which means exporters and importers will have to pay more. The domestic press is reporting that charges could go up anywhere between 5 – 20%. The current charges were set 4 years ago.

To win understanding of the business community the GPHA has engaged the Ghana Shippers Authority (GSA), the Ship Owners, Agents Association, freight forwarders, importers and exporters.

A rise in tariffs will increase the cost of doing business and could significantly affect the costs of importing machinery and spare parts as well as terminal handling charges on exports.

The GPHA is a statutory corporation established to provide efficient port facilities with the vision to make Ghana a leading logistics hub for West Africa.

#### Government to improve conditions for expanded industrialisation

The National Investment Bank (NIB) and the Ghana Agriculture Development Bank (GADB) could be merged into a new National Development Bank.

The rationale behind creating a new bank is to provide competitive credit to the agricultural and manufacturing sectors of the economy, thus aligning the banking operations to the needs of the domestic industries rather than, as is the case now, being focused on international investments.

During the presentation of the 2018 budget the Finance Minister, Mr. Ken Ofori-Atta, announced that the new National Development Bank would have some US\$500 million specifically for the agriculture and manufacturing sectors.

Prof. Godfred Bokpin, Head of Finance at the University of Ghana Business School, has applauded the proposal while the Governor of the Bank of Ghana said it makes sense for the NIB and the GADB to be merged. The government of Ghana is determined to improve the conditions for expanded industrialisation. The National Development Bank could be launched before the end of this year.

#### Boule Export prices

	Euro per m <sup>3</sup>
Black Ofram	400
Black Ofram Kiln dry	519↑
Niangon	530↓
Niangon Kiln dry	627↑

#### Export Rotary Veneer Prices

Rotary Veneer, FOB	Euro per m <sup>3</sup>	
	CORE (1-1.9 mm)	FACE (>2mm)
Ceiba	396↑	450
Chenchen	425	502↑
Ogea	428↓	590↓
Essa	400↓	760↑
Ofram	350	406

NB: Thickness below 1mm attract a Premium of 5%

#### Export Sliced Veneer

Sliced face veneer	FOB Euro per m <sup>3</sup>
Aromosia	-
Asanfina	835↑
Avodire	897
Chenchen	676↓
Mahogany	1073↑
Makore	849↑
Odum	1967↑

#### Export Plywood Prices

Plywood, FOB	Euro per m <sup>3</sup>		
	Ceiba	Ofram	Asanfina
BB/CC			
4mm	345↓	586	641
6mm	600	535	626
9mm	407	474	560
12mm	470	463	480
15mm	450	364↑	430
18mm	417	417	370

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

#### Export Sawnwood Prices

Ghana Sawnwood, FOB	Euro per m <sup>3</sup>	
	Air-dried	Kiln-dried
FAS 25-100mm x 150mm up x 2.4m up	860	925
Aromosia	492	564
Asanfina	240	320↑
Ceiba	432↑	494
Edinam (mixed redwood)	520	580
Emeri	380	428↓
African mahogany (Ivorenensis)	870	953↓
Makore	685	720↓
Niangon	620	675
Odum	755	893↓
Sapele	700	859↓
Wawa 1C & Select	370	433↓

### South Africa

#### Domestic mills face prospect of starting New Year with high stocks

Analysts report that there is little activity in the building sector and that most of the current work is on finishing existing contracts before the builders holidays which starts on the 16 December.

On the domestic front the pine market is said to be steady but the usual year end activity has not made much of an impact on the high stocks being carried by the mills. The prospects of starting the New Year with such high stocks will make almost impossible to push ahead with any price increases which are required to off-set rising log prices and the anticipated increases electricity charges.

The property market remains weak. Many building plans have been approved but most people are waiting to see the outcome of the ANC elective conference which is scheduled for mid-December as this could change the political and economic climate in the country.

#### **Importers face uphill battle to lift wholesale prices**

The weak Rand has affected imports and traders are ordering only what is needed and they have to work hard to secure the price increases for meranti, US hardwoods and African hardwoods needed to off-set the weaker Rand.

Analysts report demand for panels is also weak as most of the shopfitting work in the malls has now been completed there is little new work in the pipeline.

The furniture market remains very subdued despite a slight improvement in disposable income levels which translated into an expansion of retail sales in the beginning of the third quarter of the year. However, consumers are still very cautious on spending on household items such as furniture, the purchase of which can be delayed.

#### **Tough year for sawmillers**

In the November issue of Sawmilling South Africa Roy Southey writes "The past year has been a very tough one for our sector with not much to celebrate, but we do feel that there is potential and light at the end of the tunnel for 2018.

One thing that seems certain is that we will see some significant change of ownership in our sector and with that will come renewed energy and enthusiasm.

For the past two or three years many sawmills have been preoccupied with the idea and feasibility of converting biomass into electricity with not much emerging from this direction, this may have something to do with the fact that the national power grid seems to have stabilised and so many sawmillers are now starting to cast their eyes back towards mill modernisation, productivity improvement and mechanisation.

With the government intent on introducing a National Minimum Wage (NMW) in 2018 this could make good sense."

For more see <http://www.timber.co.za/newsletter>

## **Malaysia**

#### **LEAN manufacturing for the timber industry**

The Malaysian Timber Industry Board (MTIB) in cooperation with the Malaysia Productivity Corporation (MPC) will be organising a 'Lean Study Mission' to Japan in December.

The purpose is to experience the application of best Lean Management Practices and Techniques demonstrated in the Toyota Production System for the manufacturing and service industry. Participants will also have the opportunity to visit major furniture manufacturers.

Lean manufacturing or lean production, often simply called "lean", is a systematic method for waste minimisation within a manufacturing system without sacrificing productivity.

See:

[http://www.mtib.gov.my/index.php?option=com\\_content&view=article&id=2455%3Alean-study-mission-japan-2017&catid=1%3Ahighlights&lang=en](http://www.mtib.gov.my/index.php?option=com_content&view=article&id=2455%3Alean-study-mission-japan-2017&catid=1%3Ahighlights&lang=en)

#### **Bio-mass energy plans in Sabah and Sarawak**

In Sabah, POIC Trading, BELL Corporation and My Clean Energy have agreed to set up a satellite biomass collection centre. This partnership could eliminate the fragmentation of the sector in the State and so attract investment in the bio-energy sector.

In related news, Sarawak has now established a group to work on a feasibility study aimed at attracting investments in the bio-energy sector.

The Chief Minister of Sarawak said the biomass industry could generate around RM5 billion annual income and create 30,000 jobs and thus become one pillar of the State's objective to diversify the economy.

#### **Sarawak legality verification system up and running**

The Second Minister of Urban Development and Natural Resources, Awang Tengah Ali Hasan, has said the state government is planning to gazette 6 million hectares as Permanent Forest Estates (PFEs). So far some 4.3 million hectares have been gazetted as of October this year.

The state government is also implementing the 'Sarawak Timber Legality Verification System' which is based on the Inter-Agency Standard Operation Procedures for the forestry and timber industry. This ensures that timber and timber products from the state are verifiable legal. The Sarawak legality verification system provides for third-party audit verification.

#### **Community forest management model for Sabah**

A partnership to develop community forest management has been established bringing together Forever Sabah, the Hutan – Kinabatangan Orang Utan Conservation Programme and the World Wildlife Fund Malaysia.

The focus of forest governance activities will be in a 89,000 hectare forest area in Trus Madi Forest Reserve with support from the Sabah Forestry Department and licensee Anika Desiran.

Training of and technical assistance for state government officers overseeing biodiversity protection and management will be offered.

#### **Observing innovations in China's plantation sector**

Members of the Sarawak Timber Association (STA) Forest Plantation Committee benefitted from a week-long study tour in Southern China to observe forest plantation establishment, plantation management practices and processing in China.

The delegation visited the Hainan Forest Department they also visited APP Ling Gao-Cheng Ling Forest Farm where they were introduced to innovative approaches in land utilisation and plantation techniques.

#### Plywood price update

Plywood traders based in Sarawak reported the following export prices:

FB (11.5 mm) Standard plywood	US\$ 640 FOB
S. Korea (9mm and up)	US\$ 475 C&F
Taiwan P.o.C (9mm & up)	US\$ 450 FOB
Hong Kong	US\$ 450 FOB

## Indonesia

### Furniture industry weighed down by regulations and inadequate raw materials supply

The Vice Chairman of the Raw Materials Sector in the Indonesian Furniture and Handicraft Industry Association, Andang Wahyu Triyanto, has said the recent poor export performance of the furniture sector is the result of over burdening regulations and problems with raw material supplies.

She said the introduction of the SVLK and FLEGT license systems are holding back the industry and while the FLEGT license was promoted as a means to secure more exports to the EU this has just not happened. She said “so far, FLEGT implementation has not significantly raised sales’.

Not only is FLEGT an issue but also the Indonesian Timber Legality Verification System (SVLK) is a problem, both of which are considered as hampering the furniture and handicraft industries.

In related news, Gati Wibawaningsih, Director General of Small and Medium Industry in the Ministry of Industry, revealed that inadequate raw material supplies, overlapping regulations and the decline in the number of craftsmen in the furniture and handicraft sectors are major problems.

In addition, inadequate attention to market promotion has allowed competitors to capture international market share from Indonesia. He said Indonesian manufacturers have become less competitive than those in Malaysia, Singapore and Vietnam.

Indonesian Furniture exports in 2015 totalled US\$1.21 billion but fell to US\$1.04 billion in 2016. Despite the problems in the furniture sector the government is aiming for furniture and handicraft export in 2018 to top US\$2 billion.

Gati said that while the government plans to increase its support for export promotion manufacturers should improve their productivity and be more innovative in designs.

### Online timber exchange planned

The Indonesian Forest Entrepreneurs Association (APHI) plans to launch an online timber exchange. The aim is to prioritise transparency and effectively link buyers and sellers of Indonesian wood products. The online system could reduce transaction costs according to APHI and will lead to greater sales.

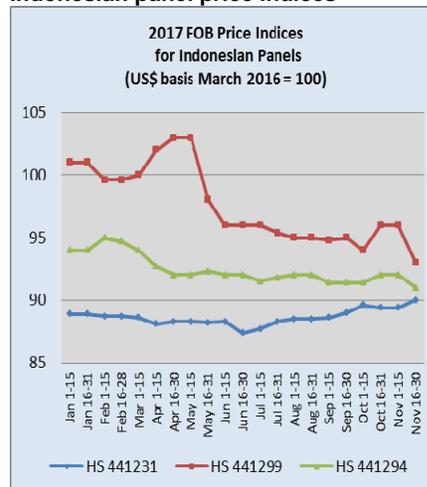
### Forestry ministry to allow log exports

Bambang Hendroyono, the Secretary General of the Ministry of Environment and Forestry (KLHK), has said the decision to allow plantation log exports was made because the volume being produced was more than the domestic industry can absorb and that the quality was suitable for the export market.

Also, allowing log exports will create competition and thus yield better prices for the local plantation log producers which will allow plantations owners to invest in more advanced management and harvesting systems to raise productivity.

However, the move to allow log exports has drawn criticism from the Chairman of the Association of Sawn Timber and Processed Timber Manufacturers Softwood Producers (ISWA), Soewarni, who said why, when more than 30 countries have banned log exports, would Indonesia think to open the door for this trade? Soewarni expressed concern that poor supervision of the log export trade could provide a loophole for trade in illegal timber.

### Indonesian panel price indices



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

### US company to expand manufacturing in Surabaya

Furniture Today, the US based trade magazine, has reported that case goods manufacturer Sunny Designs will be expanding its manufacturing in Asia with a second plant in Indonesia.

## Myanmar

### Calls for review of recent changes to foreign investment rules

The Myanmar Investment Commission (MIC) has introduced new rules seen by many as making the investment climate more complex for foreign investors. At the same time it has granted ministries more discretion to make decisions on a case-by-case basis.

The new rules apparently place restrictions on economic activities in or around watershed forests, religious sites, traditional worship sites, farms and grazing lands and water resources.

This, say analyst, could be used to exclude foreign investment in almost any sector by any investor. Calls have been made for a careful review of the changes. Also, the MIC has declared a suspension of investment permits relate to utilisation of the timber from the natural forest.

The Director General of the MIC said this decision will stop potential investors from being misled that the resources from the natural resources are abundant.

However, businesses utilising raw materials forest plantations or imported timber will be allowed to continue. Currently, some of the domestic timber-related businesses operate by importing raw timber from Africa and Latin America.

In Myanmar, the almost entire forest belongs to the state and the Forestry department has already announced that 15,000 hoppus tons of teak logs and 300,000 hoppus tons of non-teak logs are to be harvested in the 2017-18 financial year. At the planned harvest levels it has been estimated that there will be a shortfall of around 5,000 hoppus tons for domestic industry.

### Farm forest best practices discussed

Forest and Farm Producer Organizations (FFPOs) from more than 10 countries in the Asia-Pacific region recently met in Myanmar for the second regional conference to accelerate and scale up implementation of the Sustainable Development Goals in climate-resilient landscapes for the benefit of local farm and forest communities.

The conference: "From users to producers: Scaling up FFPO businesses to implement the SDGs in climate-resilient landscapes" was a three-day meeting providing an opportunity for representatives of local, regional and global forest and farm-related organizations to share best practices that will help improve livelihoods through collaboration and networking.

See: <http://www.fao.org/asiapacific/news/detail-events/en/c/1068453/>

### October teak log tender prices

Grade	H.tons	Average US\$/H.ton
SG-1	7.4	4,545
SG-2	34.3	3,680
SG-4	80.6	3,100
SG-5	109.6	3,050
SG-6	107.0	2,620
SG-7	162.9	1,665

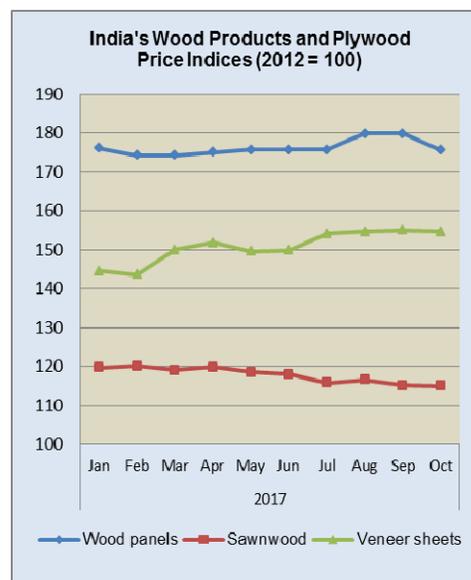
## India

### Positive growth in the third quarter

India's economy is showing signs of recovering from the impact, first, of the removal from circulation of the 500 rupee (\$7.50) and 1,000 rupee (\$15) notes which accounted for over 80% of notes in circulation and secondly the introduction of a standard Goods and Services Tax (GST) replacing complicated state systems with a single national rates. Analysts say that the latest growth data may indicate that the negative impact of these two changes is diminishing.

### Main timber price indices trend down

India's official wholesale price index for all commodities (Base: 2011-12=100) for October 2017 released by the Office of the Economic Adviser to the government (OEA) rose to 115.5 from 114.3 for the previous month.



Data source: Ministry of Commerce and Industry, India

The annual rate of inflation, based on monthly WPI, stood at 3.59% (provisional) for October 2017 compared to 2.6% for the previous month.

Inflation for this financial year so far was 2.03% compared to a buildup rate of 3.53% in the corresponding period of the previous year

The October wholesale price indices for wood panels, sawnwood and veneers all declined in October.

The press release from the Ministry of Commerce and Industry can be found at: <http://eaindustry.nic.in/cmonthly.pdf>

### European plywood gaining a foothold in India

Plywood manufactured in Europe is steadily gaining a foothold in the Indian market according to the November issue of Ply Reporter, the Indian panel sector journal. Birch plywood has caught the attention of architects and designers because of the high standard of the product.

Ply Reporter says a dealer in Delhi commented that European plywood is as good as top quality India made plywood because of its dimensional stability, clean look and strength. As demand in India ramps up creating a supply demand gap traders are looking for alternative plywood suppliers.

### No change in prices for plantation teak logs

The demand for imported teak logs remains steady and the recent reduction of the GST on some wood products is encouraging importers to believe there is hope that GST rates for other wood products will be eventually achieved.

At the time of this report prices continue within the range a previously stated.

	US\$ per cu.m C&F
Angola logs	389-574
Belize logs	350-400
Benin logs	290-714
Benin sawn	530-872
Brazil logs	344-540
Brazil squares	333-556
Cameroon logs	405-616
Colombia logs	478-743
Congo D. R. logs	450-761
Costa Rica logs	357-780
Côte d'Ivoire logs	289-756
Ecuador squares	333-454
El-Salvador logs	320-732
Ghana logs	294-452
Guatemala logs	324-646
Guyana logs	300-450
Kenya logs	515-876
Laos logs	300-605
Liberia logs	265-460
Malaysian logs	225-516
Mexican logs	295-808
Nicaragua logs	402-505
Nigeria squares	434-517

Panama logs	335-475
PNG logs	443-575
Sudan logs	358-556
Tanzania teak, sawn	307-613
Thailand logs	511-700
Togo logs	334-590
Trinidad and Tobago logs	603-753
Uganda logs	411-623
Uganda Teak sawn	680-900

Price range depends mainly on length and girth

### Locally sawn hardwood prices

Prices for imported hardwoods remain unchanged. Domestic demand for imported sawnwood continues to be firm and there is growing substitution of hardwoods for imported plantation teak as the quality and size of plantation teak logs has deteriorated recently.

Sawnwood Ex-mill	Rs per cu.ft.
Merbau	3200-3500
Balau	2000-2100
Resak	1350-1550
Kapur	1750-1850
Kempas	1250-1400
Red Meranti	1100-1200
Radiata pine AD	600-700
Whitewood	650-750

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

### Myanmar teak prices

Importers have indicated that while the availability of sawn teak from Myanmar is satisfactory ex-yard sales are flat because of the high price of imported sawn teak compared with some other good quality sawn hardwoods.

Sawnwood (Ex-yard)	Rs. per cu.ft
Myanmar Teak (AD)	
Export Grade F.E.Q.	9000-16000
Teak A grade	7000-8000
Teak B grade	5000-6000
Plantation Teak FAS grade	3500-4000

Price range depends mainly on lengths and cross-section.

### Prices for imported sawnwood

Prices for imported sawnwood (KD 12%) remain unchanged.

Sawnwood, (Ex-warehouse) (KD)	Rs per cu.ft.
Beech	1350-1450
Sycamore	1500-1650
Red Oak	1600-1750
White Oak	2200-2250
American Walnut	4250-4500
Hemlock clear grade	1200-1400
Hemlock AB grade	1200-1250
Western Red Cedar	1850-2000
Douglas Fir	1550-1750

Price range depends mainly on lengths and cross-section.

### Prices for WBP and MR plywood manufactured by domestic mills

Plywood manufacturers in India are still celebrating the reduction in GST on panels which helps them face the challenge from imported plywood.

#### Domestic ex-warehouse prices for locally manufactured WBPplywood

Plywood Ex-warehouse	Rs. per sq.ft
4mm	50
6mm	67
9mm	85
12mm	105
15mm	140
18mm	147

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

	Rs. per sq.ft	
	Rubberwood	Hardwood
4mm	25.0	37
6mm	37.75	48
9mm	48	58
12mm	58	69.5
15mm	70.5	84.25
19mm	80.25	95
5mm Flexible ply	50	

## Brazil

### Commitment to sustainable forest management gets a boost

Preference for timber from sustainably managed forests and reforestation areas is now part of the government's procurement programme. The federal government has included wood in the list of materials for which sustainable practices are a prerequisite for procurement.

This development is seen as contributing to the implementation of the Action Plan for Prevention and Control of Deforestation in the Amazon (PPCDAm) and Cerrado (PPCerrado) 2016-2020. These aim to reduce deforestation but an added benefit is that this measure will expand the market for wood products.

The measure also changed the thinking of the Inter-ministerial Commission on Sustainability in the Public Administration (CISAP) linked to the Ministry of Planning, Development and Management.

The Commission defines how the new standard will be applied to public procurement and Decree N° 9.178, of October 24, 2017, confirms that sustainable criteria and practices are acknowledged in the bidding documents as a technical qualification.

The Brazilian Forest Service will define the technical criteria for the implementation of the new rule and promote the dissemination of this measure and conduct training courses in procurement for public agencies.

### Forest concessions system a tool to combat illegal harvesting

One of the greatest challenges in the Amazon is to reconcile job and income generation with forest conservation. Forest concessions are one of the instruments to achieve this goal.

According to a November report from Huffington Post Brazil, the forest concession system of management can contribute to combating predatory extraction in the Amazon by delivering verified legal timber to the market and efforts are underway to make the Documents of Forest Origin (Documentos de Origem Florestal - DOF) system more transparent .

The DOF is an instrument for oversight and control of forest product transportation throughout the country from the forest to its final destination. Greater transparency will allow for effective social control and the creation of robust public and private instruments to combat illegal activities in the sector.

The Ministry of the Environment says that much of the wood products from the Amazon are derived from illegal activities and that a large part of this occurs in protected areas such as conservation units (UCs) and indigenous reserves.

There are 29 forest concession areas in Brazil and almost 1 million cubic metres of wood have been sustainably produced in these areas. The potential of the forest concession approach in the fight against illegal harvesting and the promotion of fair trade in Amazonian timber is yet to be fully exploited.

Transparency in the issuance of DOFs will impart legitimacy on forest products among traders and consumers. The joint expansion of these two measures is fundamental to ensure legitimate trade in timber from the Amazon.

#### Export up-date

In October 2017, the value of Brazilian exports of wood-based products (except pulp and paper) increased 44% compared to October 2016, from US\$ 86.8 million to US\$ 69.0 million.

Pine sawnwood exports increased in value by almost 50% between October 2016 (US\$28.5 million) and October 2017 (US\$42.6 million) while the volume of exports rose 41% over the same period, from 146,700 cu.m to 207,100 cu.m.

In the same 10 month period tropical sawnwood exports increased 67% in volume, from 26,100 cu.m in October 2016 to 43,600 cu.m in October 2017 and the value of exports rose 63% from US\$12.1 million to US\$19.7 million, compared to October 2016.

The positive trend continued with pine plywood where exports jumped 50% in from US\$34.5 million to US\$51.8 million. Over the same 10 month period export volumes increased 33% from 129,800 cu.m to 172,900 cu.m.

As for tropical plywood, Brazilian exports were 7.0% higher in volume and value rising from 14,200 cu.m (US\$ 5.6 million) in October 2016 to 15,200 cu.m (US\$ 6.0 million) in October 2017.

Finally, exports of wooden furniture from Brazil increased from US\$35.6 million in October 2016 to US\$44.8 million in October this year, 26% rise.

#### Wood-based panel export growth

According to the Brazilian Tree Industry Association (IBÁ) in the first nine months of this year woodbased panel exports were worth US\$212 million, a 20% increase year on year. On the other hand imports of woodbased panels remained stable at around US\$3 million.

Latin American countries remained the main markets for Brazil's woodbased panels in the first nine months of this year with export revenues of over US\$ 110 million, a 17% increase compared to last year.

Asia and Oceania markets grew 70% over the same period and the value of exports jumped from US\$20 million in the first nine months of 2016 to US\$34 million over the same period this year. In contrast, exports to Europe fell by around 50% to US\$3 million.

In the period from January to September 2017 the domestic market absorbed 4.8 million cubic metres.

#### PNQM updated to meet CN Mark requirements

The National Programme for Wood Quality (PNQM) developed by the Brazilian Association of Mechanically-Processed Timber Industry (ABIMCI) recently included new procedures such as preventive maintenance of equipment, competency training, customer complaints policy and supplier qualification. The objective is to improve the programme and enable improvements in control and traceability of production.

The PNQM provides a standardised structure for manufacturing process control from the receipt of raw material and inputs to final products packaging and shipping.

Companies that implement PNQM's management system have seen gains in productivity and competitiveness, reduced losses and costs and guaranteed access to the main consumer markets as their products meet national and international technical standards.

The other advantages for companies that implement the PNQM are improvements in internal culture and enhanced product image that leads to greater customer satisfaction. The process also stimulates continuous improvement and control of the manufacturing process.

The updated PNQM meets the requirements of BM Trada, a certification body in the UK with which ABIMCI has an agreement to facilitate CE Marking certification for structural panels from Brazil.

The CE system requires the manufacturer to meet the requirements of EN (European Standard) through the construction products regulation - CPR (305/2011), governed by standard EN 13986 + A1 2015 for wood-based panels, valid for 28 countries of the European Economic Area and three of the four member states of the EFTA.

#### Domestic Log Prices

	US\$ per m <sup>3</sup>
Brazilian logs, mill yard, domestic	
Ipê	218↓
Jatoba	124↑
Massaranduba	124↑
Muiracatiara	124↓
Angelim Vermelho	117↓
Mixed redwood and white woods	104↑

Source: STCP Data Bank

#### Domestic Sawnwood Prices

	US\$ per m <sup>3</sup>
Brazil sawnwood, domestic (Green ex-mill)	
Ipê	976↑
Jatoba	482↓
Massaranduba	451↓
Muiracatiara	450↑
Angelim Vermelho	405↑
Mixed red and white	269
Eucalyptus (AD)	225↑
Pine (AD)	161
Pine (KD)	186↑

Source: STCP Data Bank

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

	US\$ per m <sup>3</sup>
Parica	599↓
4mm WBP	489↓
10mm WBP	431↑
15mm WBP	494↓
4mm MR	368↓
10mm MR	344↓
15mm MR	

Prices do not include taxes. Source: STCP Data Bank

#### Prices For Other Panel Products

	US\$ per m <sup>3</sup>
Domestic ex-mill Prices	
15mm MDParticleboard	259↓
15mm MDF	314↓

Source: STCP Data Bank

#### Export Sawnwood Prices

	US\$ per m <sup>3</sup>
Sawnwood, Belem/Paranagua Ports, FOB	
Ipe	1480↑
Jatoba	913↑
Massaranduba	777
Muiracatiara	750
Pine (KD)	190↑

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

Source: STCP Data Bank

#### Export Plywood Prices

	US\$ per m <sup>3</sup>
Pine Plywood EU market, FOB	
9mm C/CC (WBP)	296↑
12mm C/CC (WBP)	281↑
15mm C/CC (WBP)	265↑
18mm C/CC (WBP)	267↑

Source: STCP Data Bank

#### Export Prices For Added Value Products

	US\$ per m <sup>3</sup>
FOB Belem/Paranagua Ports	
Decking Boards Ipê	2,467↓
Jatoba	1,467

Source: STCP Data Bank

## Peru

#### President of Peru addresses ITTC

Peru hosted the 53rd Session of the International Tropical Timber Council (ITTC) in late November. The meeting brought together ITTO member countries who account for around 90% of the global trade in tropical timber.

Peru, together with other producer and consumer countries, is part of the International Tropical Timber Organization (ITTO), an intergovernmental institution that promotes the conservation, management, utilisation and sustainable trade of tropical forest resources among its members.

The President of the Republic, Pedro Pablo Kuczynski, attended the opening ceremony where he said conserving and sustainably managing Peru's vast forest resources is fundamentally important for ensuring the country's future.

"The position of Peru is clear," said Mr Kuczynski. "It is to promote, along with other countries, the conservation of tropical forests, because they provide oxygen and freshwater supply and mitigate climate change."

If we don't protect our tropical forests, it will have a huge impact on future generations."

Mr Kuczynski also spoke about a new Peruvian initiative, Sierra Azul, one of the aims of which is to restore degraded lands in the Peruvian Andes by establishing tree plantations to protect water catchments and generate jobs in rural communities.

Peru is a founder member of ITTO and has benefitted from projects worth nearly US\$20 million addressing the sustainable management and use of tropical timber.

#### High level dialogue on development of the forestry sector

The Association of Exporters (ADEX) recently organised a high level dialogue seeking to identify and promote actions for an efficient and sustainable forest management system that will lead to the development of the sector and that involves the entire productive chain.

Representatives from the National Forestry and Wildlife Service (Serfor), the Forestry and Wildlife Resources Oversight Agency (Osinfor), the regional governments, the Ministry of Production, the National Forestry Confederation (CONAFOR), participated in this meeting along with the National Forestry Chamber and ADEX executives.

#### Peruvian exports of wood to August 2017

According to ADEX, as of August 2017, the FOB value of exports of Peruvian wood products amounted to US\$77.1 million down on the US\$88.3 million recorded in the same period in 2016.

China continues as the main export market for the wood products sector (50%) while Mexico is in second place with a 14% share. Exports to the US are around 10% of total exports but export volumes have been falling.

Exports of sawnwood go mainly to the Dominican Republic (31%) and China (26%) but exports to China have been falling as they have to US and South Korea.

#### Export Sawnwood Prices

	US\$ per m <sup>3</sup>
Peru Sawnwood, FOB Callao Port	
Mahogany S&B KD 16%, 1-2" random lengths (US market)	1570-1655
Spanish Cedar KD select North American market	958-977
Mexican market	946-965
Pumaquiro 25-50mm AD Mexican market	545-598

Peru Sawnwood, FOB Callao Port (cont.)	US\$ per m <sup>3</sup>
Virola 1-2" thick, length 6'-12' KD	
Grade 1, Mexican market	523-599
Grade 2, Mexican market	461-482
Cumaru 4" thick, 6'-11' length KD	
Central American market	887-933
Asian market	934-981
Ishpingo (oak) 2" thick, 6'-8' length	
Spanish market	509-549
Dominican Republic	655-678
Marupa 1", 6-13 length KD	
Asian market	496-569

#### Domestic Sawnwood Prices

Peru sawnwood, domestic	US\$ per m <sup>3</sup>
Mahogany	-
Virola	244-262
Spanish Cedar	332-374
Marupa (simarouba)	191-204

#### Export Veneer Prices

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

#### Export Plywood Prices

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

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

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

#### Domestic Prices for Other Panel Products

Peru, Domestic Particleboard	US\$ per m <sup>3</sup>
1.83m x 2.44m x 4mm	282
1.83m x 2.44m x 6mm	230
1.83m x 2.44m x 12mm	204

#### Export Prices for Added Value Products

Peru, FOB strips for parquet	US\$ per m <sup>3</sup>
Cabreuva/estoraque KD12% S4S, Asian market	1304-1391
Cumaru KD, S4S	
Swedish market	962-1095
Asian market	1059-1089
Cumaru decking, AD, S4S E4S, US market	1188-1222
Pumaquiro KD Gr. 1, C&B, Mexican market	479-554
Quinilla KD, S4S 2x10x62cm, Asian market	493-519
2x13x75cm, Asian market	732-815

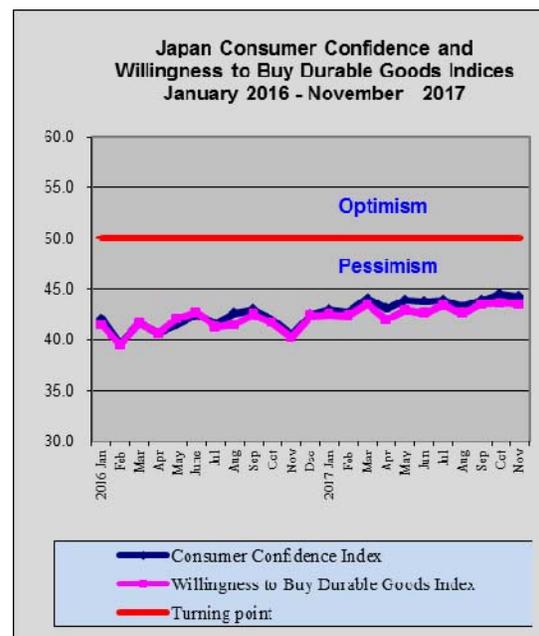
## Japan

### Wage hike the key to boosting consumer confidence and spending

While the Japanese economy is seeing the longest period of sustained expansion in the past 15 years buoyed mainly by exports, private consumption, the most important pillar of growth, has not expanded

The recent consumer confidence survey conducted by the Cabinet Office shows that overall confidence improved in November and the sentiment index for general households, which includes views on incomes and jobs, rose from the previous month, a third straight monthly uptick.

However analysts caution that the pace of recovery in consumer sentiment is muted and potentially unstable. Boosting consumer spending will require companies to begin diverting some of their huge cash reserves to wage increase, only then will sentiment get a substantial boost. The recently announced changes to the tax structures could have a negative impact on consumer sentiment.



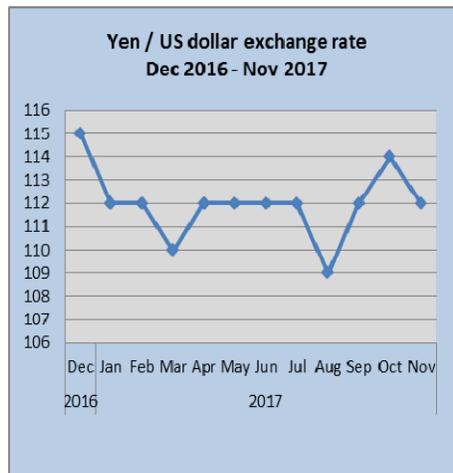
Data source: Cabinet Office, Japan

### Prospects for inflation improve

Over the past weeks the yen has strengthened against the US dollar reaching the 112 yen per dollar level in late November.

As the Japanese economy continues to improve many are forecasting that the Bank of Japan (BoJ) may soon begin easing out of its easy money policy which would cause a further strengthening of the yen. But, a strong yen would undermine exports, the main source of growth at present.

The BoJ has maintained its position that it will continue with its current policies until the 2% inflation target has been achieved which, according to analysts at Morgan Stanley, could be sooner rather than later given projections of global inflation trends.

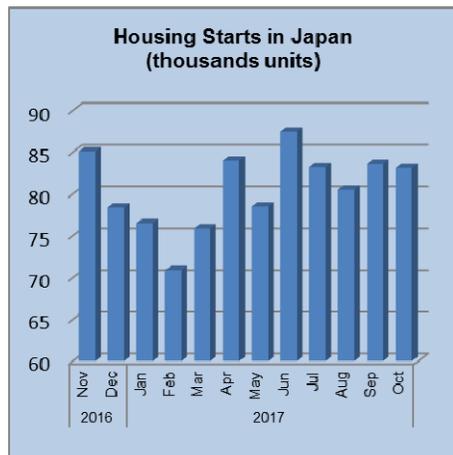


**Despite weak October data builders have seen orders for housing surge**

Year on year, Japan's housing starts have fallen for four consecutive months and the October data from the Ministry of Land, Infrastructure, Transport and Tourism shows that in October the pace of year on year decline has picked up speed.

October housing starts were down around 5% from a year earlier and at about the same level as in September. For the year as a whole annualised starts are likely to come in at around 930,000, a disappointing figure for the timber sector.

The good news in the October data is that orders received by the main house builders has improved which, if translated into starts during the remainder of this year, then total starts for 2017 may not be as bad as forecast.



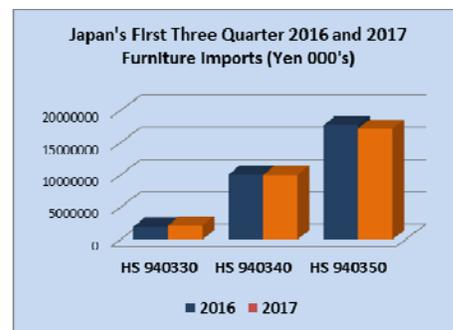
Source: Ministry of Land, Infrastructure, Transport and Tourism, Japan

**Japan's wooden furniture imports**

Furniture import data from the Ministry of Finance illustrates how remarkably unremarkable are the trends in Japan's furniture imports. Looking back over the past five years the value of imports of the three categories of furniture tracked has swung but in a very narrow range.

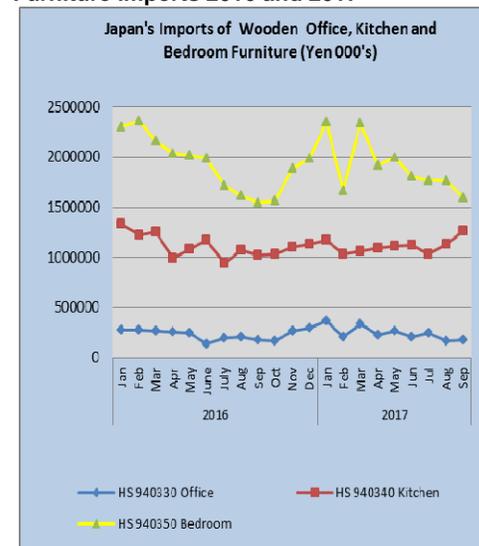
In addition, there has been virtually no change in the main sources of supply. Foreign manufacturers, if they can meet the quality requirements in the Japanese market, can be assured of regular business.

A comparison of the value of imports in the first three months of 2016 and 2017 reinforces the notion of how stable demand is in Japan. In the first nine months of the year imports of wooden office furniture (HS 940330) rose 7%, imports of wooden kitchen furniture were flat while the value of imports of wooden bedroom furniture were down 3%.



Data source: Ministry of Finance, Japan

**Furniture imports 2016 and 2017**



Data source: Ministry of Finance, Japan

### Office furniture imports (HS 940330)

Japan's imports of wooden office furniture are small compared to the value of wooden bedroom and kitchen furniture imports.

Year on year, the value of September imports of wooden office furniture was little changed from levels in August and imports have been sustained at a very consistent level over the past six months.

Compared to August, September wooden office furniture imports moved up around 5% with China being the main supplier at just over 60% of all shipments. The other main suppliers in September were Italy (9%) and Taiwan P.o.C (4%)

#### Office furniture imports

	Imports Sep 2017 Unit 1,000 Yen
S. Korea	1261
China	112471
Taiwan P.o.C	6844
Vietnam	5459
Thailand	3077
Malaysia	4153
Philippines	-
Indonesia	3822
Israel	-
Sweden	-
Denmark	-
UK	-
Belgium	-
France	645
Germany	4141
Switzerland	-
Portugal	5232
Italy	15875
Finland	-
Poland	3910
Hungary	219
Turkey	-
Lithuania	1887
Czech Rep.	-
Slovakia	1845
USA	3934
Mexico	-
Brazil	-
Australia	1122
<b>Total</b>	<b>175897</b>

Data source: Ministry of Finance, Japan

### Kitchen furniture imports (HS 940340)

The value of Japan's imports of wooden kitchen furniture has been steadily rising since July. Year on year, September imports were up 24% but compared to levels in August they were down 12%. Despite the seemingly sharp increase in September imports of wooden kitchen furniture, shipments throughout the year to-date have been within a fairly narrow range.

For the first time shipments from the Philippines topped those from Vietnam. In September shipments from the Philippines were double that in August while shipments from Vietnam were down 20%.

The combined shipments from the Philippines, Vietnam and China account for over 90% of all September shipments of wooden kitchen furniture.

#### Kitchen furniture imports

	Imports, Sep 2017 Unit 1,000 Yen
South Korea	-
China	114617
Taiwan P.o.C	-
Vietnam	405427
Thailand	18508
Malaysia	11532
Philippines	661926
Indonesia	15651
Cambodia	237
Denmark	-
U KING	843
Belgium	-
France	971
Germany	21709
Spain	-
Italy	10241
Poland	-
Austria	-
Greece	-
Romania	1181
Slovenia	-
Canada	2890
USA	334
<b>Total</b>	<b>1266067</b>

Data source: Ministry of Finance, Japan

### Bedroom furniture imports (HS 940350)

The import data seems to suggest there is an issue with import values of wooden bedroom furniture. Import trends for wooden office and kitchen furniture have not changed significantly during the year but for wooden bedroom furniture there has been a steady downturn in the value of imports beginning in the first quarter of this year.

However, looking back a few years it appears that imports of bedroom furniture are more cyclical than for either office or kitchen furniture with a decline seen mid-year to be followed by a surge at year end. This year however the reversal of the downward trend has yet to be seen.

On past trends an uptick in the value of bedroom furniture should emerge in the final quarter of the year.

#### Bedroom furniture imports

	Imports Sep 2017 Unit 1,000 Yen
S Korea	-
China	950379
Taiwan P.o.C	8567
Vietnam	402510
Thailand	73853
Malaysia	61889
Philippines	-
Indonesia	4128
Cambodia	-
Sweden	-
Denmark	1403
UK	-
Netherlands	-
Belgium	-
France	-
Germany	365
Switzerland	-
Portugal	237
Spain	-
Italy	35498
Poland	37814
Russia	1225
Austria	1740
Hungary	-
Romania	-
Turkey	-
Estonia	9738
Latvia	-
Lithuania	9570
Bosnia- Herzegovina	373
USA	1162
Mexico	-
<b>Total</b>	<b>1600451</b>

Data source: Ministry of Finance, Japan

#### Trade news from the Japan Lumber Reports (JLR)

*The Japan Lumber Reports (JLR), a subscription trade journal published every two weeks in English, is generously allowing the ITTO Tropical Timber Market Report to reproduce news on the Japanese market precisely as it appears in the JLR.*

For the JLR report please see:

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

#### Plywood market overview

In 2016, one of major plywood plants had fire damage and the supply disrupted. Kyushu had earthquake and plywood demand for restoration was busy. Housing starts were active particularly on rental units and units built for sale so that plywood consumption increased and supply shortage occurred in late 2016. This stretched into the first quarter this year then the demand started simmering down so panic situation was over.

Looking at trend of softwood plywood inventories, they were 128,400 cbms in March last year, which was the peak then they have continuously declined month after month. They dropped below 100,000 cbms in August last year and recorded less than 80,000 cbms in January this year.

Despite effort to bring the inventory level up by the manufacturers, there is additional demand for non-structural panel of floor base due to short supply of imported plywood so March production was 264,500 cbms and the shipment was 254,900 cbms then in April, the production was 252,000 cbms and the shipment was also 252,000 cbms.

There is no surplus to build inventories as produced volume is shipped out immediately. In June, the monthly shipment recoded the highest in last five years.

Imported plywood market last year was dull. With strong yen, bearish mood prevailed on imported plywood and the movement stagnated with the prices dropping in Japan.

Meantime, suppliers faced log supply shortage by foul weather and stricter harvest restriction so that the log prices soared. At the same time, the Malaysian government imposed higher timber premium, which is another reason of higher log prices. Frustrated with sluggish Japan market, Malaysian plywood manufacturers decided to reduce the production uniformly in August last year then raised the export prices to cover high cost.

As the yen weakened in late last year, price skidding in Japan stopped then since last July, both suppliers' export prices and market prices in Japan started moving up. Total supply volume for the first eight months of this year was 1,944,500 cbms, 5.4% more than the same period of 2016 but the volume in last three years was the lowest in last ten years.

Reason of dull demand for concrete forming panel is use of precast concrete (PC). Actually PC, which does not need concrete forming panels, was active last year but with urban redevelopment spreading in major populated regions, PC supply is short so that more buildings are being built with concrete, which needs concrete forming panels so the demand should return. Domestic plywood manufacturers are busy to supply structural panels and have very little room to make concrete forming panels.

Looking at future of tropical hardwood supply, producing regions have much more concern to environmental protection and resource conservation. Tighter control of illegal harvest, tighter control of harvest volume by the government and diameter harvest restriction indicate declining supply of natural wood. Also there are new log buyers from emerging countries like China, India and Middle East countries, which look for supply of wood everywhere.

There are two plywood mills left to consume tropical hardwood logs in Japan. Both are in Niigata. One produced about 41,000 cbms for the first nine months of this year. Due to delayed shipments of Malaysian and Indonesian plywood, orders to supplement imported plywood rushed in but log supply from the South East Asian sources has been tight and imported veneer is also hard to get so the production is limited. It is considering to use other species like cedar, cypress and domestic hardwood.

Another mill mainly produces hybrid plywood with tropical hardwood, Russian red pine and domestic cedar. The production for the first nine months was 38,800 cbms. They realize that South Sea hardwood log supply continues declining so they need to look for other materials.

#### **South Sea logs and lumber**

South Sea log prices were calming down after India's purchase slowed down then there is mood of picking up prices again. Reasons are that Sarawak government will raise royalty after January next year and slow log production due to very short dry season this year.

Log supply will decrease for certain by shrinking harvest quota and additional levy of various taxes.

Production of plantation wood is also affected by foul weather so plywood mills and laminated lumber mills experience difficulty to secure material logs and logs for export are in the same condition.

Meranti regular log prices in Japan have been levelling off at about 12,500 yen per cbm FOB truck then after January 2018, the prices would be up by 500 yen. Domestic plywood mills seek quality logs even with high prices and to find niche market rather than low prices.

Movement of laminated free board is finally recovering. Demand for large shopping facilities is active so that the inventories of distributors are down.

Export prices by the suppliers in Indonesia stay up high because of log shortage but the prices in Japan are holding at about upper half of 110,000 yen per cbm FOB truck.

#### **Seminar on Korean wood products market**

The Japan Wood Products Export Promotion Council held wood products export seminar in Fukuoka in October. This is particularly aiming export to Korea so it invited wood products buyers and scholars. Some Korean college professor gave lecture on wood demand in Korea and import of wood products.

According to this lecture, wood demand in Korea in 2016 was 9,003,000 cbms of logs, out of which 5,151,000 cbms of domestic logs and 3,852,000 cbms of imported logs. Self-sufficiency rate is 16.2%.

Main source of log import is radiate pine logs from New Zealand.

In 2016, 2,842,000 cbms from New Zealand, 254,000 cbms from the U.S.A., 279,000 cbms from Canada, 100,000 cbms from Japan, 23,000 cbms from Russia and 18,000 cbms from Europe. 50% of logs from Japan is cypress and 90% of lumber is also cypress.

64% of land is covered with forest in Korea but majority of wood demand relies on imported materials. Large scale plantation started in 1970s and forest resources are maturing and 50% is over 40 years so self-sufficiency rate is steadily improving.

In wood import business, log import is not increasing while import of finished wood products is increasing.

Import of lumber from Russia and Chile, plywood and MDF from China and South East Asia, particleboard from Thailand and Rumania is increasing.

Various Korean wood products buyers explained present demand for Japanese wood products. Japanese cypress is very popular in Korea. Main use of Japanese wood is wall, molding and furniture.

Cypress is used for flooring, bath tub and wall. Problem is different specification of Japanese standard and Korean standard, which is main reason of higher cost. For instance Korean standard log lengths are 2.5 and 3.7 meters while Japanese standard is 2.3 and 4 meters.

Because of high cost of Japanese cypress, in Korea, domestic cypress and Chinese cypress are used but the supply is very limited. It is medically proved that volatile organic compounds of phytoncide cypress has sterilising power and effective to atopic aczema so plantation of cypress has been expanding.

In the largest plantation area, 2.5 million cypress trees of over 50 years are available. Cedar is not as demanded as cypress in Korea.

Specification of cypress laminated lumber is thickness of 12,15,18,24,30 mm x 1,220 mm x 2,440 mm. Moulding board is 12 x 60 x 2,400 mm and 12 x 80 x 2,400 mm.

Wood based housing has been steadily increasing in Korea. 11,826 units in 2012. 17,043 in 2016 and 8,767 for the first six months of 2017. 2x4 construction is majority for apartment. Plywood, laminated lumber, particleboard and MDF are used for interior finishing.

**Notice of JAS revision**

Revision of JAS on laminated lumber is notified on October 20. Preservative treatment of lumber is officially approved.

Thickness of decorative veneer and number of ply of lamina on decorative laminated lumber and standard of length of finger joint is revised to actual condition.

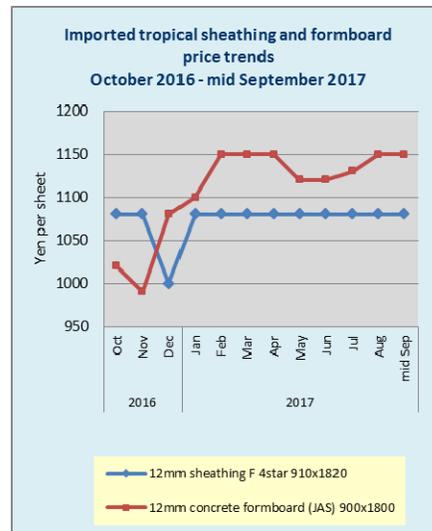
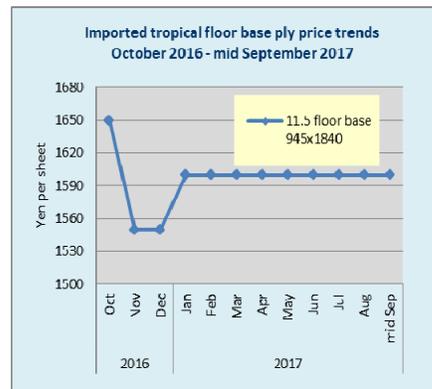
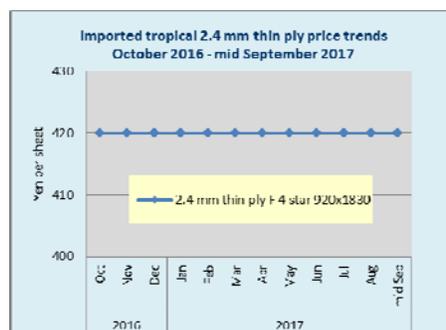
Thickness of veneer overlaid on decorative laminated lumber used for head jamb and sill is changed to 0.5 mm or more from present 1.5 mm or more. Revision is made based on the fact that there has not been claim of delamination and cracking even with thin veneer.

Cedar’s four plied structural laminated post has been widely used now without any problem so now four ply is officially approved from present five ply.

Length of finger joint is changed from more than 10.5 mm to 6.0 mm or more after popular use of micro finger jointer.

The Ministry of Agriculture, Forestry and Fisheries revised JAS on plywood and added clause of preservative treatment. It is divided into two categories of treated plywood and treated veneer. Preservative treated plywood is used for not only house building but also exterior for which untreated plywood was hard to use. This will expand market of domestic softwood plywood.

**Imported plywood wholesale prices**



**China**

**Air pollution controls in Beijing**

Recently the Beijing municipal government strengthened the implementation of air pollution regulations. The air pollution ranking for Beijing is categorised by colour and there are four categories rising from blue, orange, yellow to the highest, red.

It has been reported that the limit at which enterprises are required by law to cease operations has been tightened.

Wooden furniture enterprises fall within the list of enterprises that are required to be checked for air pollutant emissions along with those in the printing and concrete production sectors.

**Strong reaction to anti-dumping penalties in the US**

The US International Trade Commission has issued a final ruling in the China hardwood plywood case confirming that, in their view, US plywood manufacturers have been materially injured by low-priced and subsidised imports of Chinese-made hardwood plywood.

The 4-0 ITC vote on 1 December paves the way for the imposition of duties on hardwood plywood shipped from China.

Chinese authorities have expressed strong dissatisfaction with the US decision and consider this in violation of WTO obligations and commitments.

The US decision, say China, will seriously hinder Chinese plywood exports to the US and damage the interests of Chinese enterprises. In 2016, US imports of hardwood plywood products from China were valued at an estimated US\$1.12 billion.

It has been reported that the China National Forest Products Industry Association has indicated they are considering legal action.

#### US logs dominate shipments through Yantian port

According to the Shenzhen Entry-Exit Inspection and Quarantine Bureau, log imports through Yantian Port in Shenzhen City were 961,900 cubic metres valued at US\$203 million between January and October this year. This represents a 54% increase in the volume of deliveries. Some 85% of all log shipments arriving at the port were from the US.

In order to efficiently clear imported logs the number of sites for inspection and treatment at Yantian Port increased to 320 from 60. The speed at which logs could be fumigated and cleared was shortened saving money for importers.

#### New wood product trading centre

The Chongqing Traffic and Transportation Group has invested RMB2.5 billion to establish an international wood products trading centre in the Jiangjin Comprehensive Bonded Zone in Chongqing municipality. This is the third Special Customs Supervision Zone in Chongqing municipality.

The centre has an online trading platform for wood products such as logs, sawnwood, woodbased panels, wood pulp. The wood products trading centre will service western China.

Currently, timbers used for processing in the Chongqing region are sourced mainly from Zhangjiagang in Jiangsu province so transport costs are high. Transportation costs will be lowered when the trading centre in Chongqing municipality is in full operation.

The Jiangjin Comprehensive Bonded Zone was established on 17 January 2017 and is located on Jiangjin Luohuang Industrial Park.

The centre covers an area of 2.2 square kilometres and is well placed combining port, road and rail links and will become an important centre in the Yangtze River Economic Belt as it links Chongqing, Kunming and the Tran-Asia Railway the starting point for the China/Europe International Railway Corridor.

#### Guangzhou Yuzhu International Timber Market Wholesale Prices

Logs		yuan/cu.m
Merbau	dia. 100 cm+	4-6000
Bangkirai	dia. 100 cm+	3200-4600
Kapur	dia. 80 cm+	2700-3000
Ulin	All grades	6500
Lauan	dia. 60 cm+	-
Kempas	dia. 60 cm+	2000-3000
Teak	dia. 30-60 cm	8500-8600
Greenheart	dia. 40 cm+	2300-2400
Purpleheart	dia. 60 cm+	3000-4500
Pau rosa	dia. 60 cm+	2800-30000
Ipe	dia. 40 cm+	3200-3400
<b>yuan per tonne</b>		
Cocobolo	All grades	28000-40000

#### Sawnwood

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

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

#### Zhangjiagang Timber Market Wholesale Prices

Logs, All grades	Yuan/tonne
Sapelli	3000-4000
Kevazingo	8000-32000
Padouk de afric	2400-3100
okoume	1400-1800
Okan	2400-2800
Dibetou	2200-2500
Afromosia	5500-6500
Wenge	4700-5500
Zingana	3400-4800
Acajou de afica	3000-3500
Ovengkol	3850-4300
Paorosa	5900-6600
Merbau	3500-5800

Lauan	1800-2020
Kapur	2020-2500
Keruing	1700-2200
Geronggang	1600
kauri	1700-1850
Amoora	1900-2080
Calophyllum	2150-2350
Red ganarium	1300-1400

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

#### Shanghai Furen Forest Products Market Wholesale Prices

Logs All grades	000's yuan/tonne
Bois de rose	120-290
Red sandalwood	800-1800
Siam rosewood	90-300
Burma padauk	14-20
Rengas	12
Mai dou lai	6000-8000
Neang noun	23-36
Burma tulipwood	18-28
Cocobolo	35-120
Morado	10-15
Ebony	28-40
Trebol	3.6-8
African sandalwood	11-14

### Europe

#### Structural obstacles constrain market opportunities

There are significant new opportunities for the international hardwood sector, particularly with the growth of new markets in emerging countries and the development of new products such as hardwood CLT, but the industry continues to be held back by structural obstacles and is struggling to cope with rapid global shifts in trade and intense competition from substitute materials.

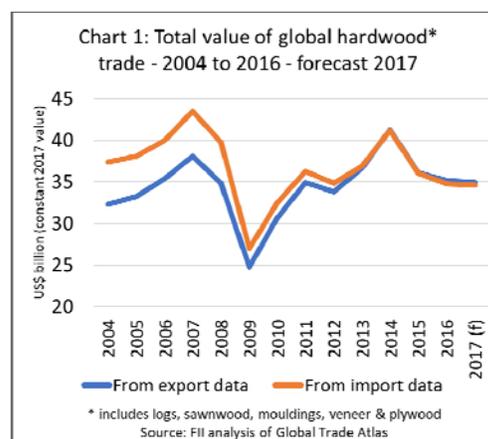
These were the major messages of the International Hardwood Conference (IHC) held in Venice on 15-17 November. Organised in association with the European Timber Trade Federation (ETTF) and European Organisation of Sawmill Industries (EOS) by Italian trade federation Fedecomlegno, part of FederlegnoArredo. The event attracted a capacity audience of 150, drawn from 17 countries.

Fedecomlegno chairman, Alessandro Calcaterra, opened with a portrayal of the wood industry at a critical point, facing increasing and shifting global demand. "By 2030 global industrial roundwood consumption is set to rise 60%, making it ever more important where wood comes from, how it's produced (FAO forecast one third will come from plantations by then) and where it's used," he said.

#### Value of global hardwood trade static at US\$35 billion

In an overview of the global market position of hardwood, analyst Rupert Oliver, of Forest Industries Intelligence, said latest statistics indicated total international trade in hardwood (including logs, sawnwood, mouldings, veneer and plywood) was valued at US\$35 billion in 2016, and this level is projected to be maintained in 2017.

Considering the longer-term trend, Mr. Oliver said that trade has been volatile in the last 15 years, declining sharply during the financial crises in 2008 and 2009, before rising to a peak in 2014, driven by demand in emerging markets, particularly the speculative boom in rosewood (hongmu) in China which receded in 2015. (Chart 1).

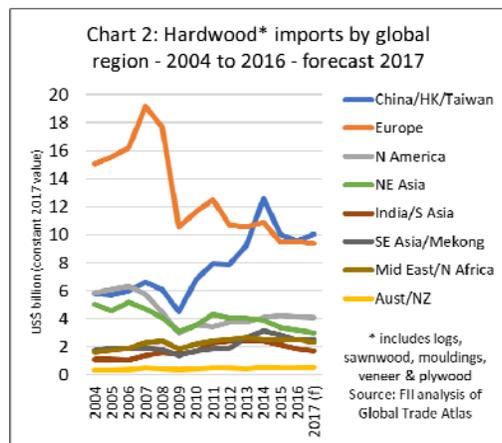


Mr. Oliver highlighted, that underlying this volatility, is a long-term lack of value growth. The total value of the international hardwood trade in 2017 was no more than in 2004 despite, in the intervening period, the world's population increasing by more than 1 billion and 1.4 billion people being taken out of poverty.

The overall stasis at global level obscures a significant shift in the balance of market influence away from industrialised countries in Europe, North America and North-East Asia to emerging markets, notably China.

Total hardwood imports by European countries declined from a peak of US\$19.2 billion in 2007 to a projected level of US\$9.4 billion this year.

During the same period, imports in North American countries fell from US\$5.8 billion to US\$4.1 billion and imports in North-East Asian countries fell from US\$4.7 billion to US\$3.0 billion. In contrast, imports increased from US\$6.6 billion to US\$10.0 billion in China and from US\$1.9 billion to US\$2.5 billion in South-East Asian countries (Chart 2).



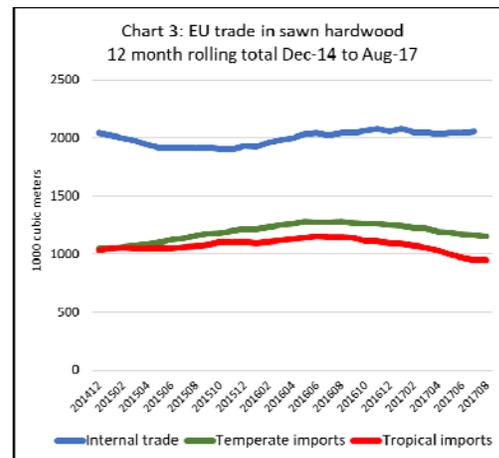
Mr. Oliver said that India had been a hardwood log consumer on the rise, but blocks on teak exports from Myanmar and Malaysian supply issues had seen its transition to more lumber buying.

But log imports by China, and to a lesser extent Vietnam and other Asian hardwood product manufacturers, continued their inexorable rise. In fact, Chinese imports hit 14.3 million metric tonnes in 2016, with 15.4 million tonnes forecast for 2017.

In sawn hardwood, Mr. Oliver said total global temperate trade was worth around US\$6 billion in 2016 and tropical US\$4.5 billion, with the US the single leading exporter and Thailand biggest tropical supplier. China again was the consumer making the headlines with sawn hardwood imports this year expected to be nine million tonnes, up from 2016's eight million and including around 1.5 million tonnes from the US alone.

Focusing in on recent trends in the sawn hardwood trade in the EU, Mr. Oliver showed that since 2014, internal trade has remained flat at 2 million m<sup>3</sup> per year, while imports from outside the EU increased in 2015 and 2016, but have been sliding again this year.

EU imports of temperate sawn hardwood increased from 1.05 million m<sup>3</sup> in 2014, to 1.25 million m<sup>3</sup> in 2016 and are projected to fall to 1.15 million m<sup>3</sup> this year. EU imports of tropical sawn hardwood increased from 1.03 million m<sup>3</sup> to 1.10 million m<sup>3</sup> between 2014 and 2016, but are projected to fall back to less than 950,000 m<sup>3</sup> this year. (Chart 3).



Mr Oliver concluded that the hardwood sector may struggle near term to grow trade volumes, but had opportunities to increase value. Difficulties to overcome included over reliance on a few species, limitations of current environmental controls to halt illegal trade and industry fragmentation, which limited opportunities for concerted promotion and investment.

But positives were revived interest among specifiers in real wood as opposed to substitutes, development of higher specification engineered and modified hardwood products and emergence of more realistic risk-based assurance of legality and sustainability. "Latest technology can also better evaluate trade data and reduce sustainability certification cost," he said.

### America's hardwood transition

At IHC, AHEC's Executive Director Mike Snow highlighted the dramatic transformation in the US hardwood sector in the last 15 years. He explained that the economic and construction crisis of the late 2000s and before that US manufacturing's migration to lower labour cost countries, saw sawn hardwood output in the US slump. It has since recovered, but at 22.5 million cu.m in 2016, is still well below the peak level of around 30 million cu.m in 1999.

At the same time, reflecting the decline in domestic construction and hardwood manufacturing demand, US mills have refocused on industrial lumber for the US market and graded lumber exports. "In 2005 grade lumber accounted for 59.7% of US output, today that's 48%," said Mr Snow. "Moreover, 45% of it is now exported and rising, compared to 17% in 2000."

China's role in this evolution has been central, accounting for all US sawn hardwood export growth since 1992, and today buying 25% of the boards America produces. US exports to China have grown particularly rapidly since the international economic crisis, thanks to the potent combination of contraction in the American domestic market and the rise of China's new middle class, firing growth in its domestic consumption.

“In 2000 85% of our exports to China were re-exported as finished goods,” said Mr Snow. “Today 80% goes into products for its domestic market.” Asked which country will be the “next China”.

Mr Snow’s response was “still China” thanks to accelerating development of its less industrialised western regions. US mills see this as a further lumber market opportunity; however, their growing concern is the accompanying rise in China’s log imports.

“So far logs have gone mainly to finished goods makers processing timber for their requirements,” said Mr Snow. “The concern now is emergence of Chinese mills cutting US logs for the general market.”

Mr Snow suggested that, despite India’s vast population and a widening gap in wood supply, opportunities to expand sales of sawn hardwood in India are unlikely to match those in China, at least in the near term, because the country is not pursuing investment in manufacturing – or in infrastructure – and is focused instead on developing a service economy. However, India is now developing as an important market for hardwood furniture made elsewhere, notably in China and Vietnam.

Questioned about the impact of the persistently strong dollar on US hardwood exports, Mr Snow said that while it will act as a temporary drag, in practice it has not prevented US hardwood exports reaching record levels. It also increases US consumer demand for finished products, including hardwood furniture.

Mr. Snow suggested that, based on current economic conditions, there is unlikely to be any significant weakening of the US dollar in the near term.

#### **Africa expected to become a net wood importer**

Another perspective on the global hardwood trade was provided at the IHC by consultant Pierre Marie Desclos who suggested that population growth will accelerate regionalisation and sharpen the focus on raw material supply and logistics.

Mr. Desclos said that the hardwood resource in many tropical regions and some temperate countries is becoming depleted and that climate change may accelerate this trend.

He also noted that, according to UN estimates, world population is projected to rise from 7.3 billion today to 9.7 billion by 2050, adding 80 million more inhabitants every year, with longer life expectancy and higher buying power.

Mr Desclos suggested this would likely result in a critical increase in hardwood demand and changing relationship between buyers and consumers.

Due to particularly rapid population growth, and limited productive forest resources, Mr. Desclos suggested that changes would be dramatic in Africa which would soon be transformed from a significant exporter into a net importer of wood products.

While population growth is expected to moderate in other regions, in Africa it is expected to accelerate. Mr. Desclos said that before the end of this century, one third of the world’s population will be in Africa.

In 2050, Nigeria will be the world’s third most populous nation, ahead of the US. African forests, which account for only 15% of the world’s total forest area, will need to focus on supplying domestic needs.

#### **ETTF view of European hardwood market situation**

ETTF President Andreas von Möller provided an overview of the current state of the European hardwood market to the IHC. He described the contraction of Europe’s tropical wood imports in recent years as ‘sad’ and due both to the recession and to specifier misperceptions’ around the material’s legal and sustainable credentials.

However, Mr von Möller, added that European market prospects are generally positive, with most countries’ GDP and construction sectors trending up. He noted that the EU’s construction production index had risen 5% since the start of 2016 and made the following observations regarding individual European markets:

The economy in Germany has been resilient in recent years and is now benefitting from improving economic conditions in neighbouring countries. Demand for wood woods in the first half of 2017 was very good, particularly for flooring and garden furniture.

Expectations are that the market will remain strong in 2018, with 30% of members of the German importing association predicting that demand will be even better than in 2017.

In the UK, the Brexit decision to leave the EU in March 2019 has created economic uncertainty and, together with the weaker GBP, is leading to inflation and reduced borrowing, business investment and consumer demand for home improvement.

Nevertheless, the UK economy continues to expand, with GDP growth projected to be 1.5% in 2017 and 1.4% in 2018. Modest new housing growth of around 0.5% is expected in 2018.

The British Woodworking Federation’s latest trade survey for Q3 2017 indicates that medium term prospects of the joinery industry remain sound. There are rising concerns over skill shortages and rising raw material costs, but many manufacturers expect sales to improve in the final quarter of the year.

After a long and deep recession, the economy in Italy is beginning to recover, with construction performing better than expected this year. Hardwood stock levels in the country are low and delivery times are now extended which is feeding through into rising prices.

The wood sector in Belgium reported positive turnover development in 2016 and the first half of 2017. Market share of wood in new housing is rising rapidly, from 6% in

2011 to 9% in 2016, but this is benefitting softwood more than hardwood. Outlook for wood demand in 2018 is considered positive.

The Netherlands economy is recovering, recording 3.4% growth in the second quarter of 2017 and 3.2% growth forecast for 2017 and 2.4% in 2018. Over 55,000 housing permits are expected to be issued in 2017, double the level of 2013, although still some way below pre-crises levels.

France, a large market for wood products, is recovering with building activity now rising to close to pre-crisis levels. However, the unemployment rate is still high, at around 10% for the last three years, and tropical wood has yet to see any benefit from growth in the wider economy.

Spain's economy is reviving following the financial crises with construction activity increasing consistently in the last two years, much of focus now being in large urban areas rather in coastal holiday towns and rural areas. However, finance for construction is still difficult and recent political events in Catalonia, which accounts for about 20% of national economy, has created uncertainty about market prospects in 2018.

Greece has been 9 years in recession and national GDP this year will be 30% less than in 2008. Construction activity is nearly 90% down compared to 2005.

Nearly one in four Greeks of working age are unemployed. Construction and other business activity is impaired by extremely high interest rates. Nevertheless, the wood sector expects the downturn to hit bottom this year and for recovery to start next year.

The economy in Denmark, which is a big per capita consumer of wood, is expected to grow 1.7% this year and the construction sector is performing well. EUTR enforcement is very active in the country and creating much confusion in the importing sector and tending to hinder imports, particularly from the tropics.

#### **European sawmills report static hardwood production**

The European domestic hardwood supply situation was summarised at IHC by EOS Board Member Nicolae Tucunel.

He reported that European annual sawn hardwood production has remained static at around 10.9 million m<sup>3</sup> in the last three years despite the gradual economic recovery. Lack of raw material was highlighted as a problem in Germany, France and Belgium, where about 30% of hardwood sawmills across the three countries have been closed in the last decade.

Mr Tucunel said that that supply problems this year have become particularly pronounced in Romania, where production is constrained both by declining log harvests and lack of finance for investment in wood processing, and in Croatia where the government implemented a ban on exports of oak logs and lumber over 20% moisture content, ostensibly for phytosanitary reasons.

EU exports of hardwood logs to China have also been high this year, at 1.47 million tonnes in the first nine months, 10% more than the same period in 2016, with around 50% comprising oak. As in North America, the level of log exports to China is now creating concern in the European hardwood processing sector.

“We must insist on a level timber market playing field,” said EOS President Sampsa Auvinen, “without raw material the European sawmill industry will be forced out of the market.”

#### **Role of EUTR in trade diversion away from Europe**

Raw material availability and distribution also formed a core theme for Davide Pettenella of Padua University. He addressed whether national and regional timber legality controls were creating a ‘dual market’ for tropical timber.

His study compared trends in primary tropical timber product imports by EU states, the USA and Australia, representing developed countries with strict timber market legality regulation, and China, Vietnam and India representing emerging consumers with lighter controls. This highlighted import swings to the latter. In 2001 of all tropical timber imported by these countries, the developed economies accounted for 63% and 72% by volume and value, the emerging countries 37% and 28%. Today the respective division is 44% and 47% and 56% and 53%.

While legality controls may be implicated in this trend, Mr Pettenella said it was not the exclusive factor. “Emerging countries’ economic development and increasing south-south trade are also involved,” he said.

In fact, his conclusion was that monitoring should focus more on these emerging market trends. “It’s a phenomenon which should be of interest to policy makers,” said Mr Pettenella. “In 1990, there were just 20 regional trade agreements. Today there are 283.”

#### **Innovation to expand opportunities for hardwood**

Turning to hardwood use, European Director David Venables described AHEC’s work supporting application of hardwood species in engineered and thermally modified form in construction. Mr Venables observed that there is a new generation of timber towers being built which are rising ever higher, a development made possible by glulam and Cross Laminated Timber (CLT).

Engineers now believe that the maximum possible height of a CLT tower is only around 11 storeys but that hybrid towers, for example comprising a concrete core with a CLT shell, can extend up to 22 storeys.

Mr Venables said that interest in using engineered wood for high density urban construction is driven mainly by cost-savings and reduced time of construction.

The BskyB building, the tallest commercial timber structure in the UK, was designed and constructed in less than one year, half the normal time of a project this size.

The building weighs considerably less than an equivalent concrete building, therefore greatly reducing the costs and time required for delivery of materials on-site.

AHEC's own work has focused on promoting the use of American hardwood for manufacture of specialist grades of CLT and glulam. "CLT production is forecast to reach 1 million m<sup>3</sup> next year," said Mr Venables. "softwood dominates the market, but imagine if hardwood took just a percentage."

This work is drawing on experience acquired during AHEC's high profile showcase projects at the London Design Festival – the Endless Stair and The Smile – where engineers and architects were commissioned to utilise experimental tulipwood CLT panels. Testing for these projects demonstrated that tulipwood CLT panels were three times stronger than spruce panels of equivalent size and weight.

The demonstration projects led directly to the first permanent use of hardwood CLT at a "Maggies Centre" in Oldham in north England.

The panels for the project comprised the lowest grades of tulipwood, the natural wood fully on display using a hardwood previously considered suitable only for paint grade.

Tulipwood was chosen not only for its strength and aesthetic, but also because of the health benefits of an untreated natural material, a factor particularly important for a structure designed for the treatment of cancer-sufferers. The exterior panels were thermally modified to enhance durability.

In another major project, Mr Venables reported that American white oak was used for the 22-meter, 4-tonne, glulam structural beams installed as the core roof structure of the new stand at Lords cricket ground in London. White oak was chosen for these, the longest cantilevered beams in the world, because of the extremely high strength to weight ratio of the hardwood.

Mr Venables said that, while CLT and glulam offer opportunities to extend applications of hardwood, there are challenges. One issue is that manufacturers only purchase square-edged fixed-width timber which is often not supplied as standard in the hardwood industry, unlike the softwood sector which is more accustomed to supply large volumes in fixed dimensions.

Another problem is that the technical standards bodies are dominated by softwood interests and need to be persuaded to approve hardwoods for use in structural panels.

Mr. Venables said AHEC has been forging links with the relevant Eurocodes committees who now appear to be more open to the idea of extending the standards to include hardwood species.

This is less because of AHEC's direct lobbying of committee members, and more because architects and engineers now recognise the potential of hardwood and are themselves demanding that the relevant standards be changed.

## North America

### **Duties on Chinese plywood triggers anger and disappointment**

The final antidumping and countervailing duties of up to 378.26% were condemned by the American Alliance for Hardwood Plywood, who represents US importers, distributors and manufacturers. The Alliance maintains the plywood from China is different from American plywood, and believes the duties will mainly hurt US manufacturers and consumers.

### **Plywood imports dip**

Hardwood plywood imports increased 8% in September, but year-to-date imports are still lower than at the same time last year, before the US imposed antidumping and countervailing duties on plywood from China.

The US imported 181,493 cu.m. of hardwood plywood in September. The value of plywood imports declined 2% from August. Hardwood plywood imports from China increased in March, but at 65,650 cu.m. the volume was well below the monthly 100,000 to 200,000 cu.m. before the US Department of Commerce imposed the duties. China remains the largest supplier of hardwood plywood to the US market despite the duties.

It is too earlier to assess the long-term changes of the duties on supply chains, but Malaysia has seen a strong gain in year-to-date shipments to the US (+47%). Imports from Indonesia, Cambodia and Ecuador have also increased.

### **Ghana and India supply more tropical veneer to US**

Tropical hardwood veneer imports fell to US\$1.8 million in September. Year-to-date tropical veneer imports were almost half compared to the same time last year.

The month-on-month decline was mainly in veneer imports from Italy. Ghana and India increased their veneer exports to the US in September. Cote d'Ivoire and India were the largest sources of tropical veneer imports in September.

### **Few changes in moulding imports compared to 2016**

Imports of hardwood moulding were worth US\$15.2 million in September, down 12% from the previous month. Year-to-date imports were unchanged from September 2016.

Imports from China increased in September bringing up China's share in total moulding imports to one third. Year-to-date imports from Brazil and Malaysia both fell over 20% compared to the same time last year.

### **Canada and Indonesia benefit most from higher US flooring imports**

Hardwood flooring and assembled flooring panel imports were worth US\$4.2 million and US\$13.3 million respectively in September. Year-to-date imports of hardwood flooring jumped 20% from September 2016, while assembled flooring imports were down year-to-date.

Canada benefited the most from the growth in hardwood flooring demand in the US and almost tripled year-to-date exports to the US from 2016. Hardwood flooring from Indonesia increased 28% month-over-month to US\$0.7 in September, while imports from China and Malaysia declined.

Imports of assembled flooring panels from Indonesia and Thailand were down in September, but year-to-date both countries exported more to the US than at the same time in 2016.

Indonesia exports more wooden furniture to US in September

Wooden furniture imports declined 4% in September to US\$1.50 billion. Year-to-date imports were up 11% from September 2016 with all major suppliers exporting more in 2017 than last year.

Furniture imports from China, Vietnam, Mexico and India were down in September. Imports from Canada increased, but the strongest growth was in wooden furniture from Indonesia. Imports from Indonesia grew 21% month-over-month to US\$44.8 million in September.

Imports of wooden kitchen furniture decreased most in September, followed by upholstered seating and bedroom furniture.

### **Economic indicators continue to improve**

GDP increased at an annual rate of 3% percent in the third quarter of 2017, according to the preliminary estimate by the Bureau of Economic Analysis. In the second quarter, GDP growth was 3.1%.

The unemployment rate was 4.1% in October, down from 4.2% in September. Jobs increased in manufacturing, professional and business services.

According to the Institute for Supply Management economic activity in the manufacturing sector grew in October. Both wood products and furniture manufacturing industries reported growth from the previous month.

Consumer confidence in the economy declined in November from the previous month, when the University of Michigan's consumer confidence index reached its highest level since 2004. Despite the month-over-month decline, consumers were more certain about future higher income and good job prospects. This certainty along with rising home prices and stock market is expected to boost consumer spending. Online retail sales were 18% higher than last year at the start of the Thanksgiving weekend (Black Friday).

### **Strong demand for single-family housing**

Housing starts in October were at a seasonally adjusted annual rate of 1,290,000, according to the US Department of Housing and Urban Development and the Commerce Department. This is lower than in October 2016 but represents a 14% increase from September.

Building permits increased nation-wide by more than 6% in October, pointing towards higher building activity in the future.

Single-family construction increased year-to-date compared to the same time last year. Builders' confidence in the market for new single-family homes grew in November to the second-highest level since May 2005, according to the National Association of Home Builders. Demand for housing is growing steadily driven by economic growth and low unemployment.

Existing-home sales increased in October to their strongest pace since earlier this summer, according to the National Association of Realtors.

### **Furniture market update**

Growth in the furniture industry slowed a bit in August, but the overall market outlook is positive for 2018. Economic growth and strong consumer confidence are expected to strengthen demand for furniture.

New furniture orders increased 1% in August from the same time last year, according to the Smith Leonhard industry survey of residential furniture manufacturers and distributors. Almost 70% of survey respondents reported higher orders year-to-date compared to 2016.

Furniture shipments increased 23% in August from the previous month, but the surge was mainly due to the summer holiday shutdown at many companies.

Retail sales at furniture and home furnishing stores grew almost 4% year-to-date compared to the same period in 2016. The growth in furniture sales surpassed that of most other department-type merchandise, according to US Census data. Only gasoline, building material and garden supplies sales grew at a higher rate from last year than furniture.

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**REPORT ON THE ITTO ANNUAL MARKET DISCUSSION - 2017**  
**29 November 2017, Lima, Peru**

The ITTO Annual Market Discussion was held on 29 November 2017 with the theme “Sharing experiences on promoting investment in tropical timber industries and tropical forestry”. The discussion featured six speakers: Ms. Ingrid Nielsen (Indufor Group, Finland), Mr. Erik Fisher (Association of Exporters ADEX, Peru), Mr. Ivan Tomaselli (STCP Consulting and Engineering, Brazil), Mr. Bob Tate (Papua New Guinea Forest Industries Association), Mr. Christian Held (UNIQUE Consulting, Germany), and Mr. Rik Sools (FORM International, Netherlands).

The presentations were followed by a question and answer session with members of the Joint Committees. Mr. Barney Chan (Trade Advisory Group co-Coordinator, Malaysia) presented the TAG Market Statement. The Chairperson for the session was Andre de Boer (Trade Advisory Group co-Coordinator, Netherlands).

Ms. Ingrid Nielsen (Indufor) said that in emerging markets, the gap between wood supply and demand is increasing due to high population growth, urbanization rates and stagnant supply. The expansion of large scale industrial plantations is limited in many countries due to land tenure, social stability and sovereign matters. Ms. Nielsen suggested that the future growth of forest industry value chains will be increasingly based on sourcing wood from private, small to medium size tree growers, instead of large-scale industrial estates.

Drawing on evidence in Europe and Vietnam, and Indufor’s direct involvement in several forest and forest industry investments around the world, Ms. Nielsen noted that timber supply chains integrating smallholders to downstream processing is proven to be an effective means to fight deforestation and expand forest assets while also producing benefits for local communities. Referring to Indufor experience in Tanzania, Ms. Nielsen demonstrated steps that can be taken to build associations of small to medium size forest owners to provide a foundation for forest industry development. A key requirement for the success of this development model is to establish industrial infrastructure capable of consuming a variety of different wood assortments and producing a diversity of wood products. Another requirement is targeted training for small to medium sized local enterprises covering issues such as better equipment and machinery, work safety and quality, and to highlight networking opportunities with material and service providers.

Mr. Erik Fischer (ADEX) commented on the challenges of promoting forest sector investment in Peru and highlighted the need to better communicate to consumers and investors the environmental and social benefits of sustainable timber production in managed natural tropical forests. Mr. Fischer observed that while Peru has the fourth largest tropical forest area in the world, covering 61% of national territory, the forest sector contributes only 1.1% to GDP. Mr. Fischer also showed that Peru’s wood product exports declined from \$171 million in 2014 to \$130 million in 2016 and that there has been a longer term decline from \$219 million in 2008. This raises the question of why Peru is not a major exporter of wood products.

Mr. Fischer suggested that while Peru had developed a good framework for concession allocation, it has not been implemented effectively. At present only 2 million hectares are fully operational out of the 7.5 million hectares available for concessions. The other concessions were allocated to companies without the required technical and financial resources and subsequently returned to the state. Using case studies of successful concessions in Peru, Mr. Fischer showed that in these areas deforestation is prevented, wildlife is conserved, and the local economy benefits from employment opportunities and infrastructure development. Mr. Fischer concluded by emphasizing that the model of natural forest concessions under sustainable forest management is both a profitable business and an effective conservation tool, but there is limited understanding of this model amongst investors and wood consumers. Mr. Fischer said producers and consumers share responsibility to raise awareness and encourage investment in this model.

Mr. Ivan Tomaselli (STCP) emphasized most investment in sustainable forest management derives from the private sector, notably forest industry corporations and institutional investors. Of the latter, TIMOs, organisations established specifically to aid institutional investors in managing forest sector investments, are becoming more important. There are now around 30 large TIMOs worldwide managing \$60 billion of forest assets. These investors manage forest land to maximize returns and investment decisions are based on their assessment of factors that will impact on future value.

Mr. Tomaselli contrasted recent forest sector development in Brazil, Chile and Uruguay, on the one hand, with Bolivia, Peru and Venezuela on the other. In the former, timber production and forest industries are growing steadily based largely on plantations and with investments supported through a variety of development programs and incentive schemes. In the latter, timber production is mainly based on natural forests and has been stable for the last 30 years, while trade in forest products has been declining and their contribution to the national economy is limited. Drawing on experience in Latin

America, Mr Tomaselli suggested that the following factors encourage private forest sector investment: there is a robust and long term national program of support for investment which includes actions to improve the investment climate and considers integrated forest and industrial development; incentives are available to manage forests and, particularly, to establish forest plantations; plantations focus on a limited number of species with high productivity capable of producing market timber; there is concentration in regions with good infra structure and logistics; and there is public sector support for technology and human resource development.

Mr. Bob Tate (FIA PNG) also highlighted that tropical forest and timber industry investment is dependent on the private sector which in turn looks to economic returns, political stability and legislative and policy stability to underpin its long term investment in the forest sector. Equally important is the extent and security of the forest resource base and, in the case of plantation investment, there is security of land tenure.

Mr. Tate suggested that while PNG does have a large and secure forest resource, recent policy interventions have undermined, rather than enhanced, investment in the forest products sector. Mr. Tate said that PNG forest cover is 81% and deforestation rate has been less than 1% per year since 2000. The PNG sustainable harvest from the permanent forest estate is set at 3.8 million cubic meters per year, a level that has never been exceeded. However, the processing sector in PNG is in decline, a recent study finding that the number of large and medium scale mills has fallen from 14 to 7 over the last 15 years and there has been no new investment in mill establishment during that period. PNG forest plantation development has also effectively ceased. From a base of approximately 65,000 hectares per year in the 1990s it has fallen to 40,000 hectares currently.

Mr. Tate said that the PNG Forest Act establishes a National Forest Policy which is subject to regular stakeholder review and amendment if necessary. However, over the recent two year period, this policy has been weakened as competing development objectives take precedence. Mr. Tate suggested that investor interest in the PNG forest industry is weakened by the Small Medium Enterprise Policy, which aims to increase PNG ownership of business, and the shift in legislative and regulatory power over forests, where it impacts on REDD+, away from the PNG Forest Authority to a new Climate Change Development Authority. He also said that efforts to develop a national framework for legality verification and certification, which could enhance interest in investment, have so far been hampered by the conflicting objectives of NGOs, industry and governments. Where necessary operators have, according to their market needs, obtained full FSC, Controlled Wood, or PEFC certification but these certification programs are expensive and their cost precludes most small enterprises from being certified.

Mr. Christian Held observed that, according to FAO data, plantations supply 46% of global industrial roundwood production despite accounting for only 7% of global forest area. However, there is only declining potential to increase the area of large commercial plantations because of land tenure conflicts and pressure to avoid conversion of the remaining natural forest. At the same time, global demand for industrial roundwood, currently between 1.7 and 1.8 billion cubic meters, is forecast to rise to 3 billion cubic meters by 2030. A large proportion of this production will need to derive from active management of natural forest including, where necessary, rehabilitation of degraded areas. Drawing on experience and data from Paraguay,

Mr. Held compared the business case for three forest management systems; natural forest management, plantation and silvi-pastoral systems. While plantations win the economic competition, sustainable management of natural forest scores ecologically. For example, in the Paraguay case study, natural forest has an average carbon stock of 400 tCO<sub>2</sub>/ha compared to 200 tCO<sub>2</sub>/ha in the plantation. However mean annual increment of timber in the natural forest is only 5 m<sup>3</sup>/ha/a compared to 30 m<sup>3</sup>/ha/a in the plantation. Profits from the natural forest are 95 USD/ha/a compared to 950 USD/ha/a in the plantation. The silvo-pastoral system delivers profits comparable to those of the plantation, at 850 USD/ha/a, while also providing early cash flow and significant environmental improvements compared to traditional cattle farming.

Mr. Held concluded that satisfying the rising demand for roundwood will be a challenge and the choice of forest management regime will depend on local circumstances. Plantations may be the most attractive economically, but they require substantial investments compared to natural forests and in many areas opportunities to develop plantations are limited. Natural forest management of tropical forest, though challenging, offers a competitive package of economic, social and environmental returns and has a critical role to play in future wood supply.

Mr. Rik Sools highlighted key success factors and challenges for tropical plantation investment drawing on experience in Ghana and Tanzania. Mr Sools observed that in Africa there is a growing timber supply gap as forest plantation development is enormously outpaced by deforestation. Using data from AFR100 (African Union, WRI), Mr. Sools suggested that at least 100 million hectares of forest in Africa will need to be planted or otherwise rehabilitated by 2030 but at the current rate of 200-300,000 ha/year, at most only 4 million ha will be rehabilitated by that date.

A key challenge is lack of access to finance in the African forest sector which is still largely unknown to investors and where there is a perception of high risk, partly due to limited project experience and a track record of positive outcomes. The translation of international climate commitments to provision of actual finance for forest projects has been very slow, while the image of plantations is undermined by association with land grabbing and forest conversion. There is also limited skilled staff for plantation forestry in Africa.

Mr. Sools also reported successful outcomes where certain conditions are met. Success factors include: the phased development of projects including piloting and expansion at the right pace; reliance on a sound sustainable model offering social and environmental benefits as well as economic returns; good choice of species to match the site and climate so as to maximise growth rates; a mixed revenue model combining income from timber, cash crops, services, and carbon sequestration; a combination of finance from private investors and the public sector; and a strong management team combining appropriate technical knowledge with entrepreneurial acumen.

Mr. Sools also emphasised the role of the public sector to provide an enabling environment, for example through direct support for sustainable private sector projects, human resource development and R&D, to facilitate land access and improve plantation regulations, and to provide subsidies and tax incentives for reforestation.

In the ensuing discussion, the delegate from India said that, from an environmental perspective, there can be no doubt that wood is the best material and should be preferred in building and product design. While plantations are necessary to supplement wood supply, they cannot substitute for natural forest which provides greater biodiversity and carbon sequestration benefits. No natural forests should be cut down to provide room for plantations and natural forest should be maintained to provide eco-system services. In response, Mr. Held agreed that plantations are not necessarily a better option than natural forest for future timber supply and that each country should adopt a forest resource development plan most appropriate to local circumstances, and that natural forests have an important role in timber supply in the future. Mr. Held also suggested that returns from ecosystem services will often be inadequate and there will need to be a timber component to ensure that natural forest management remains economically viable.

Mr. Fischer agreed that promoting plantation establishment is necessary, but this should focus on degraded forest areas and not replace natural forest. He stressed that natural forest conservation is not the same as protection and implies active forest management, including for timber production.

The delegate for Colombia stressed the highly variable forest context in each country, noting that the causes and agents of deforestation are complex and require different solutions. However, absence of finance for natural forest management, in contrast to the subsidies for alternative activities, is a common problem in many countries. He also emphasised that natural forest management and plantation forestry should not be seen as competitive but complementary.

The delegate for Costa Rica asked whether there was reliable data available comparing the energy intensity and carbon footprint of tropical wood with other materials. The Chair noted that the European Timber Trade Federation (ETTF) and Netherlands Timber Trade Association (NTTA) jointly commissioned comprehensive life cycle assessment studies comparing tropical timber with plastic, steel and aluminium alternatives which confirmed that tropical timber compares well with alternatives. Mr. Held noted that there are a wide range of other similar studies but that more work is required to ensure these studies are more widely available to communicate the results.

Following the presentation of the TAG Market Statement by Mr. Barney Chan (TAG co-Coordinator, Malaysia), the delegate from China provided details of the Global Green Supply Chain Mechanism. The mechanism is an industry initiative from Chinese enterprises and is planned to be established in 2018. The objective is to promote the legality and sustainability of tropical timber through increased co-operation between traders, government agencies, and representatives of producers and consumers. The mechanism will be hosted in China but participation will be open to companies and organisations in all areas of the world. The mechanism will be action-oriented to include studies, investment, technology transfer, and capacity building. It will also involve close collaboration with ITTO and ITTO's Trade Advisory Group (TAG).

The delegate of the Republic of Korea said that the National Institute of Forest Science in Korea will host a conference on timber engineering in Seoul next year to involve architects, builders, and timber producers and encouraged ITTO to participate. It was noted that timber building is very important to the ITTO mission, not only to add value to tropical timber products but also to enhance their carbon storage potential.

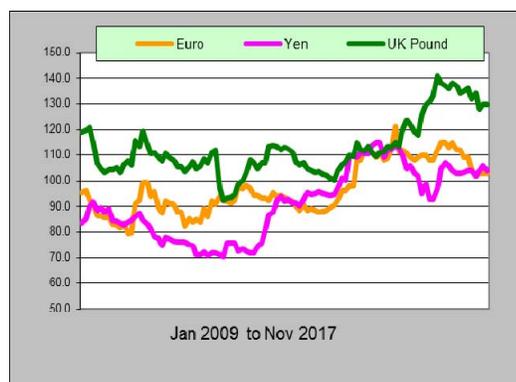
Presentations and the Trade Statement are available at <http://www.itto.int/ittc-53/presentations/>. (See 29 November section)

## Dollar Exchange Rates

As of 25 November 2017

Brazil	Real	3.2575
CFA countries	CFA Franc	551.92
China	Yuan	6.6134
EU	Euro	0.8573
India	Rupee	64.508
Indonesia	Rupiah	13533
Japan	Yen	112.25
Malaysia	Ringgit	4.09
Peru	New Sol	3.24
UK	Pound	0.7419
South Korea	Won	1108.21

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

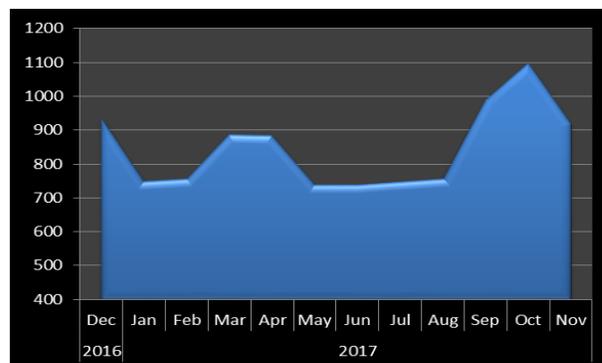


## Abbreviations and Equivalences

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

## Ocean Freight Index

Baltic Supramax Index  
December 2016 – November 2017

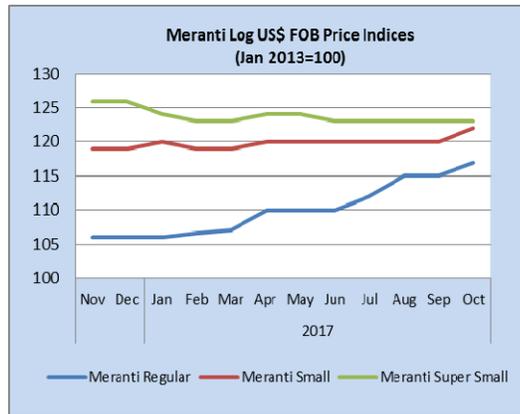


Data source: Open Financial Data Project

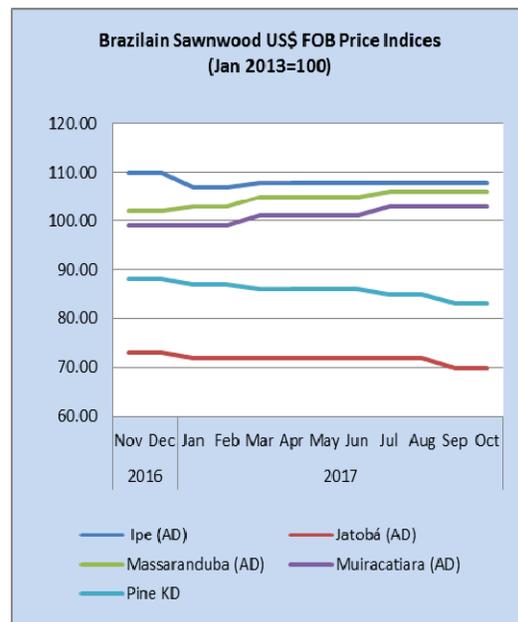
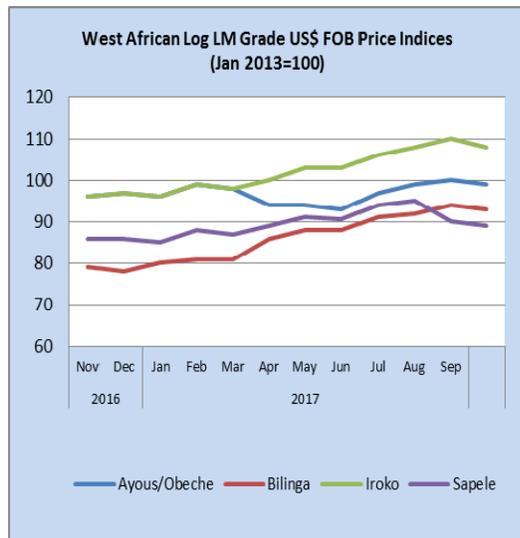
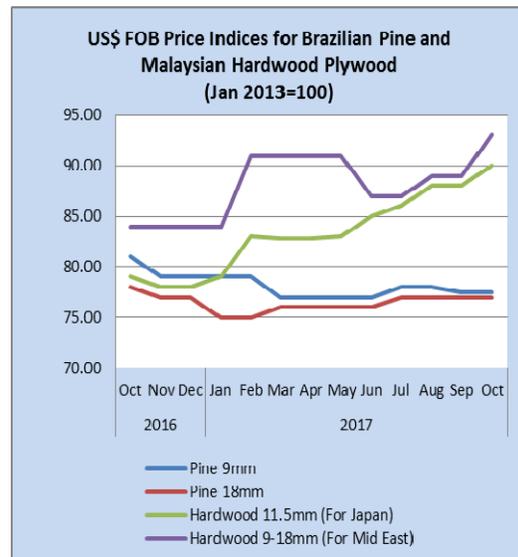
The BSI (Baltic Supramax Index), published by the Baltic Exchange, is the weighted average on 5 major time-charter routes.

**Price indices for selected products**

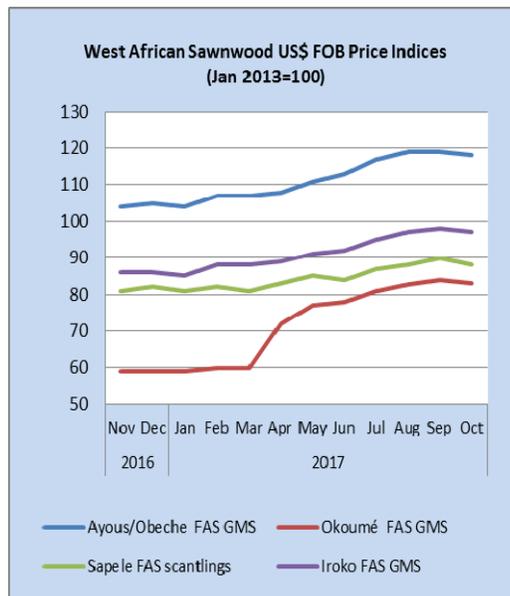
The following indices are based on US dollar FOB prices



Note: Sarawak logs for the Japanese market



Note: Jatobá is mainly for the Chinese market.



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