

# Tropical Timber Market Report

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## Top Story

### **European manufacturers dominate domestic joinery market**

Europe's joinery sector is dominated by domestic manufacturers. Most of the doors, windows, kitchen units and stair parts installed throughout the EU are also manufactured in the EU.

Most of the wood products and components supplied to the sector are also produced in the EU.

External suppliers have struggled to penetrate the European joinery sector. Success requires detailed knowledge of changing consumer tastes and regular contact with a large and generally fragmented network of building contractors.

Suppliers of joinery products also need adhere to an increasingly complex range of standards at the European and member state level.

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## Report from Central/West Africa

### Trade satisfied due diligence system will meet the EUTR

In W. and Central Africa, firm and uncompromising government and corporate controls on harvesting and compliance with the law has virtually eliminated illegal timber entering the supply chain.

In comparison to the thousands of cubic metres of tropical timber traded annually from West and Central Africa the volume of timber considered illegal for one reason or the other is considered very low, say analysts.

Most large EU importers have taken steps to institute due diligence audit systems with their suppliers. The trade is now waiting to see how the 'competent authorities' (the agencies responsible to oversee due diligence) in each importing member state of the EU will interpret and implement the EUTR.

One of the greatest fears in the trade is that a shipment could be deemed illegal simply because of a missing document or because the paperwork submitted does not exactly follow the format in the regulation.

### Markets quiet and without direction

Throughout West and Central Africa producers report that markets have no particular direction and remain very quiet. Demand in the EU and N. America is, at best, only moderate during the winter months as building activity is adversely affected by the weather.

European importers have increased stock levels of the most favoured species over the past months to avoid any supply problems with the coming into force of the EUTR and this partly explains the quiet market conditions.

On a brighter note, producers report that there is growing interest in decking timbers as companies in the EU and N. America prepare for the springtime increase in demand for decking.

In contrast to activity in the EU and N. American markets, Middle East business is brisk and prices are firming.

Buying for the Chinese market has not yet recovered from the lull over the Chinese New Year vacations but prices continue to be stable.

### Redwoods in demand, iroko out of favour

Demand for sapele sawnwood has improved and prices have firmed significantly and could, say analysts, move higher. There is a current interest in mahogany 'type' redwood sawnwood and buyer's interest has grown in recent weeks. In contrast, iroko sawnwood is currently out of favour and prices have weakened.

Padouk prices are variable but trending slightly weaker. Buyers in Belgium, a good market for padouk, are out of the market at the moment as they are fairly well stocked, say analysts.

West and central log export prices are unchanged. Demand for logs is steady but only at current price levels and producers expect this price stability to remain into the second quarter of the year.

### EU economic outlook worries producers

Lowered forecast for the EU economies is bad news for African timber exporters. Countries such as Spain, Portugal, Greece and Italy, once major buyers of tropical timber, are struggling to turn their economies around through austerity measures and public spending on construction projects.

In the UK, despite an upturn in housing starts and a massive latent housing demand, the government has been unable to find a stimulus package that can boost construction activity.

African exporters are hoping for an improvement in market prospects for 2013 as 2012 was a tough year however, there are few signs of where or when there could be any real improvement in buyer sentiment.

### Log Export Prices

West African logs, FOB	€ per m <sup>3</sup>		
Asian market	LM	B	BC/C
Acajou/ Khaya/N'Gollon	205	205	145
Ayous/Obeche/Wawa	220	205	135
Azobe & Ekki	205	205	135
Belli	210	210	-
Bibolo/Dibétou	145	130	-
Iroko	270	230	220
Okoume (60% CI, 40% CE, 20% CS) (China only)	245	225	200
Moabi	280	280	190
Movingui	185	155	150
Niove	165	165	-
Okan	300-	295	-
Padouk	340	320	235
Sapele	270	255	170
Sipo/Utile	320	295	170
Tali	285	285	-

### Sawnwood Export Prices

West African sawnwood, FOB	€ per m <sup>3</sup>
Ayous FAS GMS	330▲
Bilinga FAS GMS	515
Okoumé FAS GMS	470▲
Merchantable	290
Std/Btr GMS	345
Sipo FAS GMS	530▲
FAS fixed sizes	-
FAS scantlings	495▲
Padouk FAS GMS	800
FAS scantlings	840▼
Strips	340
Sapele FAS Spanish sizes	480▲
FAS scantlings	505
Iroko FAS GMS	550▼
Scantlings	580▼
Strips	410
Khaya FAS GMS	430
FAS fixed	465
Moabi FAS GMS	550
Scantlings	550▼
Movingui FAS GMS	400

## Report from Ghana

### Takoradi Port development to benefit exporters

The port at Takoradi was the first to be built in Ghana and is now the second largest in the country. The port has handled Ghana's traditional exports such as timber and wood products for decades.

The volume of traffic through Takoradi Port has grown in recent years as much of the oil drilling and exploration equipment comes into the port and there has been an expansion of outgoing shipments such that the port has become increasingly congested.

To address the problem of congestion at the port the Ghana Ports and Harbours Authority (GPHA) has entered into an agreement with the China Harbour Engineering Company (CHEC) for work on a first phase of an US\$150mil. Takoradi Port Infrastructure Development Project.

Currently, Takoradi Port has seven berths – four multipurpose and one each specifically for manganese, bauxite and oil. Draughts range from 9 to 10 metres. The port has a covered storage area of 140,000 square metres, 250,000 square metres of open storage space and container-holding capacity of 5,000 TEUs (twenty-foot equivalent unit).

Takoradi Port handled 53,041 TEUs in 2010, up 9% from 47,828 TEUs in 2009. In-coming container traffic amounted to 24,127 TEUs and outgoing traffic amounted to 28,914 TEUs.

Vessel movements jumped 33.6% to 1,277 in 2010 from 956 the previous year. Vessel turnaround time in 2010 averaged 2.1 days, down from 3.3 days in 2006.

Total cargo traffic rose 19% to 4.01m tons in 2010, up from 3.37m tons in 2009. Imports totalled 1.72m tons and exports 2.29m tons in 2010 up from 1.26m tons and 2.11m tons respectively in 2009.

The first phase of the port infrastructure development project has already started with the demolition of old structures; dredging of existing berths; construction and extension of breakwaters; building of new berths for bulk cargo such as bauxite, manganese, clinker, etc; building of oil terminals and improvement of access to the port.

When the work is completed the port will be able to handle more traffic and larger vessels. In addition, vessel turnaround time should be reduced leading to lower shipping costs a bonus when shipping traditional commodity products from the port.

### President outlines plan to expand manufacturing

In the national address to parliament, the President, John Mahama, provided assurances that the government will marshal the collective energy of all stakeholders to facilitate the emergence and growth of a strong manufacturing sector.

The President mentioned some key areas that need to be addressed to achieve this goal namely; a review of current tax structure for manufactures to improve competitiveness, establishment of an industrial development fund to support ailing and struggling manufacturing industries and to provide fully serviced industrial plots, especially in the regional capitals.

### Fuel prices to go up

The government has announced that prices must be raised by 15 – 20% on all petroleum products because of the soaring price of crude oil on world markets and the cedi/US dollar exchange rate developments in recent months.

Many analysts believe the increase in fuel prices will have a negative knock-on effect on prices of all goods and services. Fuel costs are significant elements in wood production costs and the increase in fuel costs could negatively impact the sector.

### Boule Export prices

	Euro per m <sup>3</sup>
Black Ofram	225
Black Ofram Kiln dry	294▲
Niangon	487▲
Niangon Kiln dry	545

### Domestic Log Prices

Ghana logs	US\$ per m <sup>3</sup>	
	Up to 80cm	80cm+
Wawa	154-163▲	165-180▲
Odum Grade A	168-174▲	177-188▲
Ceiba	122-152▲	135-152▲
Chenchen	93-105▲	108-123▲
Khaya/Mahogany (Veneer Qual.)	111-123	125-145
Sapele Grade A	145-155	160-185
Makore (Veneer Qual.) Grade A	132-138▲	140-166
Ofram	109-117	122-131

### Export Sawnwood Prices

Ghana Sawnwood, FOB	€ per m <sup>3</sup>	
FAS 25-100mm x 150mm up x 2.4m up	Air-dried	Kiln-dried
Afrormosia	855	945
Asanfina	480	-
Ceiba	185	240
Dahoma	318	409
Edinam (mixed redwood)	375	444
Emeri	358	424
African mahogany (Ivorenensis)	575	643
Makore	552▲	607
Niangon	502	573
Odum	610	698
Sapele	600	627
Wawa 1C & Select	302	353

### Export Veneer Prices

Rotary Veneer, FOB	€ per m <sup>3</sup>	
	Core (1-1.9mm)	Face (<2mm)
Bombax	315	350
Ofram,	295	355▲
Ogea	315	350
Otie	310▼	340▼
Chenchen	285	350
Ceiba	290▲	353

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

### Export Rotary Veneer Prices

Rotary Veneer 2mm and up, FOB	€ per m <sup>3</sup>	
	CORE (2mm & up)	FACE (2mm & up)
Ceiba	280	353
Chenchen	315	350
Ogea	315	350
Essa	215	350
Ofram	315	355

### Export Sliced Veneer Prices

Sliced Veneer, FOB	€ per sq. m	
	Face	Backing
Afrormosia	1.19	1.00
Asanfina	1.40	0.80
Avodire	1.00	0.60
Chenchen	0.72	0.44
Mahogany	1.25	0.70
Makore	1.20	0.65▲
Odum	1.75	0.95

### Export Plywood Prices

Plywood, FOB	€ per m <sup>3</sup>		
	Ceiba	Ofram	Asanfina
BB/CC			
4mm	404	568▼	622
6mm	392	600▼	600
9mm	335	420▲	461
12mm	333	410▲	422
15mm	296	358▲	359
18mm	286	345	355

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

### Export Added Value Product Prices

Parquet flooring 1st	FOB € per sq.m		
	10x60mm	10x65-75mm	14x70mm
Apa	12.00	14.47	17.60▲
Odum	8.30	11.00	11.60
Hyedua	13.67	13.93	17.82
Afrormosia	13.72	18.22	17.82

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

## Report from Malaysia

### Inflation is in check and 2013 prospects appear good

The Malaysian economy grew by 5.6% in 2012 compared to 5.1% in 2011 according to a recent report from the Central Bank. Growth in the last quarter of 2012 was 6.4% and there was an increase of 1.3% in the consumer price index.

Private sector investments grew by 20.2% while public investment went up by 11.1% in the last quarter. The Central Bank report said that investments were robust and were the main drivers of growth in the last quarter.

Growth in the construction sector continued to be strong, pushed up by civil engineering and building in the residential sector. A sustained growth in the domestic economy is expected to support positive growth in 2013, despite expected weak economic growth in the advanced economies.

Domestic demand has been stimulated by some expansionary government policies which are slowly being wound down. Malaysia was one of the few S. E. Asian economies to achieve a substantial expansion of exports during the final quarter of 2012.

### Despite low log stocks prices remain flat

The timber industry in Malaysia is slowly getting back to business after the long Chinese New Year holiday but trading remains quiet at the moment. Log stocks are reported low at present, the combined result of the rainy season and the long industry shut-down for the New Year festival.

Some plywood factories are complaining that the flow of logs is inadequate for production and this is resulting in some upward pressure on log prices. Analysts report that these pressures will grow if market demand picks up however, at the moment trade is too thin for there to be any major shift in prices.

The Chinese market is still quiet as the industries there slowly get back into production after the holiday period while Indian buyers are only in the market to meet immediate demand.

### Markets in Asian 'growth engines' waiting for some good news from EU and US

Analysts anticipated an improvement in timber prices as log stocks fell due to the disruption to logging activities but there has been little change.

Lingui Development Bhd, a major timber company in Malaysia was quoted by the Malaysian Star newspaper saying "demand for plywood and veneer from Japan in the fourth quarter of last year was generally lackluster, partly due to the weakened yen".

Timber exporters such as Lingui have been severely impacted by the considerable slowdown in demand from Asia's 'growth engines', China and India. All eyes are on Europe and USA to deliver a prosperous year of the snake.

### Log Export Prices (FOB Sarawak)

Meranti SQ	US\$ 255 – 260
Kapur SQ	US\$ 310 – 340
Keruing SQ	US\$ 250 – 270
Selangau Batu regular	US\$ 310 – 350

### Export Plywood Prices

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

## Report from Indonesia

### Indonesia's timber legality assurance system promoted to UK trade

The Ministry of Forestry and the Indonesian Embassy in the UK recently held an event to promote Indonesia's timber legality assurance system (SVLK). The event, billed as an 'Interactive Market Dialogue on Indonesia's timber legality assurance system (SVLK)', was held in London and attracted over 60 timber importers. These importers praised Indonesia for taking the initiative to provide information on the readiness of Indonesian exporters for the EUTR.

This multi-sector dialogue was the first conducted in UK after it became mandatory for timber companies in Indonesia to comply with the Indonesian legislation on timber legality verification.

The meeting in London focused on presenting Indonesia's SVLK in the framework of the Indonesian and UK trade and involved private enterprises and NGO's.

### Imports have confidence in Indonesian V-legal license

A mission from Indonesia led by Agus Sarsito visited the EU to provide first hand information to the EU trade on progress in the implementation of the VPA between Indonesia and EU.

Importers in the UK and Belgium confirmed that Indonesia's timber shipped with the V-Legal license is recognised as meeting the EUTR.

The head of the mission said he was sure that EU importers will have complete confidence in the Indonesian timber legality assurance system. Indonesia is now shipping wood products with a V-legal license and up until February 19 some 8,000 licenses have been issued.

### Group certification allows legality audit costs to be shared

A number of exporters in Bali have secured SVLK Certification confirming the legality of their wood products and so assuring their customers that the wood used has been legally sourced.

Six companies in Bali took the initiative to establish a cooperative, Koperasi Bersama Indonesia (KBI) to facilitate cost sharing for the process of securing the V-Legal certificate.

The companies that are now certified are PT. Putri Ayu, PT. Mitra Bali Fair Trade, PT. Kriya Jaya International, CV. Maharani, UD. Margono and UD Bali Shine Wood.

The Indonesian legislation provides for small enterprises to form a group such as KBI to share the cost of certification. A Lead Auditor at one of Indonesia's independent certification companies said the cost of securing SVLK certification could be from US\$2500 to US\$5000 depending on the complexity of the operation.

The V-Legal certificate is now mandatory for exporters and there have been cases in Surabaya where shipments have been stopped because the appropriate V-Legal license was not obtained by the exporter.

### Domestic Log Prices

Indonesia logs, domestic prices	US\$ per m <sup>3</sup>
Plywood logs	
Face and core logs	240-270
Sawlogs (Meranti)	232-330
Falcata logs	110-270
Rubberwood	94-125
Pine	90-172
Mahoni (plantation mahogany)	135-385

### Domestic Ex-mill Sawnwood Prices

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

### Export Plywood Prices

Indonesia ply MR BB/CC, export FOB	US\$ per m <sup>3</sup>
2.7mm	625
3mm	525

### Domestic Plywood Prices

MR Plywood (Jakarta), domestic	US\$ per m <sup>3</sup>
9mm	369-405
12mm	350-423
15mm	303-432

### Export and Domestic Other Panel Prices

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

### Export Added Value Product Prices

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

## Report from Myanmar

### Teak dealers scramble to stock up on teak logs

The Myanmar Timber Enterprise open tender sales were held on 22 and 25 February and the following average prices were recorded.

Prices are quoted in euro per ton, hoppus measure.



### Teak Prices

Grade	Quantity (Tons)	€ per ton
4th Quality	10	5046
SG-1	21	3312
SG-2	36	3048
SG-4	234	2502
SG-5	135	1872
SG-6	103	1615
SG-7	64	1453

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

Traders are reporting that the current market for teak logs is very firm. The prospect of a complete log export ban is driving dealers to increase their stocks of teak logs.

Average prices at the most recent auction were firm despite some inconsistent grading which was of concern to buyers. Some buyers said that reasonably good log parcels were made available for the sealed bid part of the February sale.

In contrast to the better than expected price levels for logs for export, average prices for logs for use by local millers were much lower however, the grades that were purchased by the domestic mills were also lower than those purchased by exporters.

Fresh Gurjan logs, especially those suitable for veneer, were in strong demand. Analysts say that buyers have started to take the prospect of the log export ban seriously judging from the trend in demand and price levels. Buyers of Gurjan prefer fresh logs as they are mainly used for veneer.

### Timber legality workshop

The Minister for Environmental Affairs and Forestry (MOECAF) recently opened a workshop on 'Timber Legality Assurance Systems' (TLAS) and his address was reported in the state owned vernacular daily newspaper the 'Mirror Daily'.

The minister highlighted the need for Myanmar to implement a TLAS to ensure Myanmar exporters can secure access to the EU market. He stated that Myanmar has had many years of experience in harvesting timber and downstream processing in accordance with national forest laws and regulations.

In December 2012, the Myanmar Certification Scheme was introduced and he mentioned that formation of a timber certification committee has been proposed. He mentioned the need to establish independent auditing agencies to certify that harvesting, logging and transportation is in accordance with the laws and is conducted in an open and transparent manner.

Recently an EU delegation visited the MOECAF and discussed the EU Timber Regulation. The minister also welcomed the plan by the EU and the Myanmar Timber

Merchants Association to jointly organise a 'Timber Certification Training Workshop'.

Discussions continue with international bodies with a view to securing assistance in the field of forest conservation, legalisation and the development of the Myanmar wood industry.

## Report from India

### Call for budget to stimulate housing sector

Developments in India's housing sector reflect the state of the economy. Sales of new homes have fallen and developers are seeing margins shrink as the availability of mortgages has fallen and interest rates have climbed. According to some estimates around 20 mil. homes are required in urban areas to meet demand but activity in the sector has slowed.

As the Indian parliament begins to discuss the next fiscal budget the real estate sector is looking for a tax break similar to the 10 year tax holiday given to infrastructure companies. Representatives of the real estate sector say that providing the tax holiday will encourage them to market affordable homes on which margins are small. Increasing the stock of low cost homes is a priority for the government as it tries to reverse the expansion of slums in urban areas.

In addition to the tax relief sought, the real estate companies are calling on the government to allow greater tax deductions by home buyers on housing loan interest payments. Analysts point out that if interest rates decline this will have an immediate impact on demand.

### India ranked high in Nielsen Global Consumer Confidence Index

Consumer confidence in India improved in the final quarter of 2012 according to the Nielsen Global Survey of Consumer Confidence and Spending Intentions. See press release: <http://www.nielsen.com/in/en/news-insights/press-room.html>.

The press release says "54% of respondents in India indicated they would put spare cash into savings, eight percentage points lower than last quarter (62% in Q3). Thirty-nine percent said they would invest in new technology and products, while 36% reported they would spend spare cash on new clothes".

In terms of job prospects the Nielsen press release says "In the final quarter of 2012, 76 percent of online respondents in India were optimistic about their job prospects over the next 12 months, a point below the 77 percent in Q3 2012, and two points below the same period last year (78% Q4 2011)".

### Achieving a balance between mining and forestry

The planting of commercial tree species on wasteland, unused areas in non-forest lands, in agro-forestry and social forestry areas as well as along canals, roads and railway tracks offers an opportunity to meet the growing

demand for timber, wood products and for raw materials for the paper and rayon industries.

Eucalyptus, casuarina, varieties of bamboos as well as shade trees such as neem, ashoka, bombax and others could contribute to improving the environment and biodiversity.

Most of the states of India have been successfully establishing tree crops on non-forest lands, an effort that is commendable given the low forest and tree cover in the country. Currently the national tree cover is around 23% but the target is to increase this to 33%.

The success of these activities needs to be documented and promoted so that additional degraded and otherwise fallow and unused land could be identified and made available for tree crops.

The struggle to maintain the national forest cover is complicated by demands for expansion of mining concessions for iron ore and coal, many of which are in forest areas.

To try and achieve a balanced development Forest Survey of India has been given the task of identifying and mapping national pristine forests so informed decisions can be made on mining concession allocation.

#### **Change in Forest Act brings huge benefits to forest communities**

With the introduction of a Forest Rights Act and through efforts of the Tribal Affairs Ministry, the Environment Minister, Ms. Jayanthi Natarajan, succeeded in correcting the definition of bamboo from that of a tree, as defined in the Indian Forest Act of 1927, to its technical classification as a grass. This small but obviously necessary change will have a significant impact on the livelihood of rural communities.

Because of the change in definition the management, harvesting and sale of bamboo will no longer be the responsibility of the Forest Department but will fall under the Tribal Affairs Ministry. Bamboo is a major raw material for the paper and pulp industry and is thought to be worth around Rs.100 billion annually.

Because of this change in definition the benefits from bamboo production and sales, rather than going to government revenue will now be enjoyed by the rural communities where the bamboo is grown.

#### **Sales of Teak and other hardwoods from Indian forests.**

During the log auctions held on 30th January 2013 approximately 14,000 cubic metres of teak logs were sold in the depots of Dang forests of Western India. Analysts report that, while overall the quality was satisfactory, the prices offered were lower than in the past auctions reflecting the current domestic economic uncertainties.

Average prices realised at the most recent auction are shown below. Prices are per cubic foot ex depot.

Teak logs	per cubic foot ex depot
A quality for ship building	Rs.2500 ~ 2700
B quality for ship building	Rs.2400 ~ 2500
A quality for sawing	Rs. 2000~ 2100
B quality for sawing	Rs. 1900~ 2000
A quality Long length logs	Rs. 1800~ 1900
B quality Long length logs	Rs. 1700~ 1800
Medium Quality Saw logs	Rs. 1500 ~1700
Average Quality Saw logs	Rs. 1200 ~1400
Reject Quality Saw logs	Rs. 800~ 1000

#### **Haldu (Adina cordifolia) and Laurel (Terminalia tomentosa) log prices**

Length	Girth	per cubic foot ex depot
3-4 m.	46 to 60 cm	Rs.200 ~250
3-4 m	61 to 75 cm	Rs.300 ~375
3-4 m	76 to 90cm	Rs.400 ~450
3-4 m	91 cm & up	Rs.500 ~700

Auction of such large quantities of logs is a relief to sawmillers who have been experiencing raw material availability problems.

Increased volumes of logs are being delivered to the depots. Depots in Central India expect to auction around 30,000 cubic metres of fresh logs and the dates for the next auction are soon to be announced.

#### **Imported Teak logs**

The availability and shipment of teak logs from overseas suppliers remains steady and prices have not changed significantly.

Current C & F prices per cubic metre, delivered Indian ports are shown below:-

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

	US\$ per m <sup>3</sup>
Tanzania Teak sawn	450-800
Côte d'Ivoire logs	450-850
PNG logs	450-550
El-Salvador logs	400-550
Guatemala logs	400-500
Nigeria squares	300-500
Ghana logs	350-650
Guyana logs	300-450
Benin logs	500-1000
Benin sawn	700-800
Brazil squares	400-600
Columbia logs	400-600
Togo logs	350-500
Ecuador squares	350-500
Costa Rica logs	450-650
Panama logs	350-450
Sudan logs	500-650

Variations are based on quality, log length and the average girth.

Domestic prices for air dried sawn timber remain unchanged as indicated below. Prices are shown as per cubic foot, ex-sawmill. Prices for imported KD (12%mc) sawn wood remain steady.

#### Domestic Ex-mill Prices for Imported Sawnwood

Merbau	Rs. 1500~1650 per cu.ft
Balau	Rs. 1600~1700 per cu.ft.
Kapur	Rs. 1100~1250 per cu.ft
Red Meranti	Rs. 800~ 900 per cu.ft
Radiata Pine	Rs. 500 to 550 per cu.ft
White wood	Rs. 525 to 575 per cu.ft

#### Domestic Ex-mill prices for Myanmar Teak Sawn in India

	per cu.ft
Export Grade F.E.Q	Rs. 4500-10500
A grade sawn timber	Rs .3400-4000
B grade sawn timber	Rs. 2800-3100
Plantation Teak	
FAS grade lumber	Rs .2000 to 2600

	per cubic foot ex-warehouse
Beech wood	Rs. 1100~1200
Sycamore	Rs .1200~1300
Red Oak	Rs. 1400~1550
White Oak	Rs. 1400~1650
American Walnut	Rs. 2000~2150
Hemlock Clear Grade	Rs 1000~1100
Hemlock AB Grade	Rs. 950~ 1000
Western Red Cedar	Rs. 1400~1550
Douglas fir	Rs. 1050~1100

Price variations depend mainly on lengths and cross sections of sawn pieces.

#### Good financial returns from plantations

More and more plantations of Poplar and Eucalyptus are being established to meet the growing needs for raw material. The financial returns to plantation owners are good as prices have been increasing.

Indian plywood manufacturers continue to source core and face veneers from Vietnam, Thailand, Malaysia, and Myanmar. Factories in Myanmar are said to be supplying good quality veneers and adequate quantities.

As the trend for Indian companies to build mills overseas continues more raw materials will become available enabling domestic mills to better utilize their installed capacity and meet the growing domestic demand.

#### Domestic Ex-warehouse Prices WBP Marine Grade Plywood

	per sheet
4 mm	Rs.30.00
6 mm	Rs.44.00
12 mm	Rs.67.00
15 mm	Rs.79.00
18 mm	Rs.95.00

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

	Rubberwood	Hard wood
	per sheet	per sheet
4 mm	Rs.13.00	Rs.22.00
6 mm	Rs.20.00	Rs.30.00
8 mm	Rs.25.00	Rs.35.00
12 mm	Rs.30.00	Rs.40.00
19 mm	Rs.43.00	Rs.53.00
5 mm Flexible ply	Rs.30.00	

### Report from Brazil

#### Growth estimates portray renewed optimism

The Brazilian Central Bank is forecasting that economic growth in 2013 will reach 4 percent. In December 2012 the economy expanded by 0.26% compared to levels in November and this reflected the overall slowdown in the economy towards the end of the year.

In 2012, the Brazilian government acted to lower interest rates, cut taxes for industry and ease credit but these measures did not spark a recovery in the economy.

In recent weeks the government has been targeting the availability of consumer credit as it views a recovery in credit as a key element in its efforts to reverse the economic slowdown.

While several financial institutions foresee an expansion of consumer credit in the coming months, interest rates on consumer loans are very high and this dampens demand for credit.

#### Inflation worries emerge once again

According to the Brazilian Institute of Geography and Statistics (IBGE), the inflation rate surged in January recording the highest monthly variation since April 2005.

The January 2013 inflation rate at 2.25% was also the highest for the month of January since 2003. Over the past 12 months the inflation rate rose to 6.15%, well above the maximum of 5.8% registered for the previous 12 months.

#### Currency weakens slightly against the dollar

In January 2013, the average exchange rate was BRL 2.03/USD compared to BRL1.79/USD during the same month in 2012. The 2013 rate reflects a slight depreciation of the Brazilian currency against the US dollar.



### **Interest rates a key to recovery**

A decision to hold the prime interest rate (Selic) at 7.25% was made by the Monetary Policy Committee (Copom) of the Central Bank (BC) at its last meeting.

Most financial analysts consider that the Selic rate should be maintained at its current level, at least during the first quarter of this year and that consideration should be given to lowering the rate to 7% in the second quarter if the economy does not show signs of recovery.

### **Removing bureaucratic hurdles will stimulate the timber sector**

According to the Center of Industries of Wood Producers and Exporters (Cipem) the timber sector in the state of Mato Grosso is expected to grow tenfold over the next ten years due mainly to increased output from reforested areas and through improved forest management.

According to the Mato Grosso Reforestation Association (AreFloresta), the area of teak plantations in the state increased 20% between 2007 and 2010 and the area of eucalypt plantations more than doubled in the same period.

The supply of raw materials from plantations will more than compensate for the reduced harvest in the natural forest says the Association. At present the timber sector represents the fourth largest sub-sector in the state's economy after agriculture, livestock and manufacturing.

In 2012, the income generated through trade in forest products increased 9% compared to 2011, from R\$ 256.1 million to R\$ 278.9 million.

It is expected that in 2013 growth will be higher than last year supported by the State Environment Secretariat (SEMA) project 'Restructuring of Land Regularization and Environmental Licensing Procedures in the State of Mato Grosso'. This project aims to remove bureaucratic hurdles in the timber sector so as to stimulate expansion in the sector.

### **Acre State gets German funds to combat deforestation**

The rate of deforestation in Acre State in the Amazon region has fallen by half over the past 25 years and the efforts of the state are a model for combating deforestation. Over the years the state has implemented an economic development model that includes forest protection and combating poverty.

For its efforts in the protection of the environment the German Government awarded Acre State euro 16 million to finance further environmental projects.

The contribution was forthcoming because the state administration is exploring the development of a REDD project, the international mechanism to financially compensate for the maintenance of tropical forests and mitigating greenhouse gases emissions.

The German donor has a specific programme called 'REDD Early Movers' to contribute to efforts to halt deforestation.

This is the first time project funding has been provided to a state administration in Brazil and it is anticipated that this effort will attract a lot of national and international attention since Acre is a focus of attention when it comes to deforestation in Brazil.

Sources familiar with the project say that the State Government will use much of the project funds to support an existing scheme called the System of Incentives for Environmental Services (Sisa), created by the government of Acre to eradicate deforestation.

### **Pine exporters performed well in January**

In January 2013, timber products exports (except pulp and paper) increased 3.2% compared to values in January 2012, from US\$ 163.9 million to US\$ 169.1 million.

Pine sawnwood exports increased 6.2% in value in January 2013 compared to January 2012, from US\$ 9.7 million to US\$ 10.3 million. In terms of volume, exports increased 12.5%, from 42,300 cu.m to 47,600 cu.m over the period.

Exports of tropical sawnwood fell 16% in volume, from 29,800 cu.m in January 2012 to 25,000 cu.m in January 2013 and in value the decline was 3.4% from US\$ 14.7 million to US\$ 14.2 million, over the same period.

Pine plywood exports increased 23% in January 2013 compared to January 2012, from US\$ 25.2 million to US\$ 31.0 million. Plywood exports also increased by 21.5% during the same period, from 69,300 cu.m to 84,200 cu.m.

On the other hand, exports of tropical plywood dropped from 5,800 cu.m in January 2012 to 5,400 cu.m in January 2013, a 7% decline. There was no change in the value of tropical plywood exports for the same period.

Data shows that the value of furniture exports dropped from US\$ 29.5 million in January 2012 to US\$ 28.5 million in January 2013, representing a 3.4% decline.

### **Brazilian Furniture Project delivers positive results**

In 2012, furniture exports to Mexico under the "Brazilian Furniture Project" were outstanding according to analysts.

Brazilian furniture exports to Mexico fell by 14% between 2011 and 2012 while during the same period companies participating in the "Brazilian Furniture Project" increased their sales by 43% to the Mexican market. This result proves the effectiveness of the export model which aims to provide greater visibility to the Brazilian furniture industry in key international markets.

Companies participating in the project also saw demand in other countries improve. Sales to the United States grew by 8% in 2012 reaching US\$78 million, compared to US\$72.1 million in 2011.

Another significant increase was recorded in sales of Brazilian furniture to Peru which jumped from US\$ 21.5 million in 2011 to US\$ 27.4 million in 2012, an increase

of approximately 27%. Sales to Angola also rose 13%, reaching US\$ 52.9 million in 2012 compared to US\$ 46.8 million in 2011.

Countries such as Chile, Colombia, the United Arab Emirates, Russia and South Africa are also included in the list of target markets under the project.

#### **Brazilian furniture industry seeking capitalise on success in Mexico**

The Brazilian furniture industry participated in the latest fair "Expomueble Invierno" held in February in Guadalajara, Mexico.

"Expomueble Invierno" is a long running furniture trade fair which has been held for the past 32 years. The fair brings together more than 500 local and foreign exhibitors in an area of over 52,000 square metres and this year recorded more than 10,000 buyers and visitors.

Mexico is one of the most important overseas markets for Brazilian furniture and the industry was determined to participate in the fair to enhance the image of Brazilian furniture and consolidate the Brazilian presence in the Mexican market.

#### **Price trends**

The domestic market remains rather quiet and average prices in lira have not changed over the past weeks.

#### **Domestic Log Prices**

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

#### **Export Sawnwood Prices**

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

#### **Domestic Sawnwood Prices**

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

#### **Export Veneer Prices**

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

#### **Domestic Veneer Prices**

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

#### **Export Plywood Prices**

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

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

#### **Domestic Plywood Prices**

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

Domestic prices include taxes and may be subject to discounts.

#### **Export Prices For Other Panel Products**

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

#### **Export Prices For Added Value Products**

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

### **Report from Peru**

#### **Wood exports fell 3% in 2012, says Adex**

Erik Fischer, chairman of the Wood and Wood Industry Committee of the exporters association, Adex, has reported that timber exports in 2012 reached US\$ 164 million and that this represented a 3% decline on levels one year earlier.

He also reported on a meeting with the Deputy Minister of Foreign Trade and Forestry Union representatives where a commitment was made for all parties to work together to stimulate the forestry and forest industry sectors.

In this regard he stressed the importance of a sound legal framework to encourage investment and the importance of ensuring regulations for the sector do not become a deterrent to investment.

While export demand was subdued in 2012 the domestic economy was robust. Andina, the state news agency, has reported that GDP in 2012 grew by 6.3% with an especially strong performance (plus 5.9%) in the final quarter of the year.

The expansion of the economy, says Andina, was driven by growth in non-primary sectors, especially by increased activity in the construction (12.6 percent), commerce (6.4 percent), and services (7.1 percent) sectors.

#### **Add more value to timber production, recommended expert**

Jessica Moscoso, Executive Director of the Center for Technology Innovation - Wood (CITEmadera) explained that the main challenges for the Peruvian timber industry

are to add greater value to their production and to take advantage of the diversity of timber species in Peru.

According to Moscoso, the lack of technology and research support and poor communication between forest authorities and industry is another challenge that must be addressed.

#### Streamlining bureaucracy to ease burden on business

Businesses in Peru have long complained about the burden of satisfying bureaucratic procedures which they say are endless and a serious handicap to industrial development in the country.

Recognizing that the bureaucracy is overwhelming business the government has plans to streamline government agencies and simplify the paperwork required for everything from applying for licenses to paying taxes.

The State News Agency, Andina, says the government plan by 2016 to reduce by 50% the time it takes for businesses to satisfy regulations. The government wants to simplify the procedures as part of its government modernization plan.

#### Fast economic growth in Peru attracts EU business delegation

The EU Vice President Antonio Tajani recently traveled to Peru with a large business delegation representing 37 European companies and industry associations from 10 EU member states.

In a press release the EU said the members of the business delegation had a combined turnover of some euro 320 billion, while the business associations in the delegation represented more than 64,000 companies.

This mission was part of the series of "Missions for Growth" designed to help European enterprises, in particular small and medium sized enterprises, to profit from fast growing emerging international markets. The visit to Peru was aimed at reinforcing partnerships to help industry and SMEs to fully exploit the potential for commercial relations between Peru and the EU.

During the visit agreements were concluded in the areas of raw material extraction and supply, industrial cooperation, small and medium sized enterprises development and construction. A further joint declaration was aimed at boosting tourism.

#### Export Sawnwood Prices

Peru Sawnwood, FOB Callao Port	US\$ per m <sup>3</sup>
Mahogany S&B KD 16%, 1-2" random lengths (US market)	1570-1655
Spanish Cedar KD select	
North American market	958-977
Mexican market	946-965
Pumaquiro 25-50mm AD	Mexican market 532-586

Peru Sawnwood, FOB Callao Port (cont.)	US\$ per m <sup>3</sup>
Virola 1-2" thick, length 6'-12' KD	
Grade 1, Mexican market	417-477▲
Grade 2, Mexican market	356-398▲
Cumaru 4" thick, 6'-11' length KD	
Central American market	834-849
Asian market	798-871
Ishpingo (oak) 2" thick, 6'-8' length	
Spanish market	509-549
Dominican Republic	564-573
Marupa (simarouba) 1", 6-11 length Asian market	368-394

Peru Sawnwood, FOB Iquitos	US\$ per m <sup>3</sup>
Spanish Cedar AD Select Mexican market	887-909
Virola 1-2" thick, length 6'-13' KD	
Grade 1, Mexican market	409-444
Grade 2, Mexican market	321-354
Grade 3, Mexican market	161-176
Marupa (simarouba) 1", 6-13 length KD	
Grade 1, Mexican market	281-311▲

#### Domestic Sawnwood Prices

Peru sawnwood, domestic	US\$ per m <sup>3</sup>
Mahogany	867-911
Virola	80-111▲
Spanish Cedar	264-305
Marupa (simarouba)	73-87

#### Export Veneer Prices

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

#### Export Plywood Prices

Peru plywood, FOB Callao (Mexican Market)	US\$ per m <sup>3</sup>
Copaiba, 2 faces sanded, B/C, 15x4x8mm	318-347
Virola, 2 faces sanded, B/C, 5.2x4x8mm	412-420
Cedar fissilis, 2 faces sanded 4x8x5.5mm	759-770
Lupuna, treated, 2 faces sanded, 5.2x4x8mm	363-385
Lupuna plywood B/C 15x4x8mm	366-382
B/C 9x4x8mm	345-350
B/C 12x4x8mm	350-360
B/C 8x4x15mm	410-429
C/C 4x8x4mm	389-425
Lupuna plywood B/C 8x4x4mm Central Am.	370-393

#### Domestic Plywood Prices

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

#### Domestic Prices for Other Panel Products

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	1287-1388
Cumaru KD, S4S	Swedish market 866-981
Asian market	1090-1175
Cumaru decking, AD, S4S E4S, US market	1210-1298
Pumaquiro KD # 1, C&B, Mexican market	423-511
Quinilla KD, S4S 2x10x62cm, Asian market	477-503
2x13x75cm, Asian market	708-768

### **Greenheart logs shipped after a lull**

During the period reviewed Greenheart fair and small sawmill quality logs were exported at fairly good average prices.

Purpleheart log export prices remain very favourable especially for the top qualities (standard and fair sawmill grades). On the other hand prices for small sawmill category Purpleheart logs dipped.

Mora log export prices remained stuck at the lower end of the export price range which was a disappointment.

### **Encouraging market interest in sawnwood**

The demand from export markets for sawnwood was encouraging for both dressed and undressed timber.

Greenheart (Select, Undressed) prices fell from US\$ 1,145 to US\$ 950 per cubic metre. The good market demand for Greenheart (Merchantable, Undressed quality) drove top end prices to US\$ 679 per cubic metre.

Purpleheart sawnwood (Select, Undressed) traded at US\$ 1,060 to US\$ 1,100 per cubic metre, an increase in its top end price from levels recorded two weeks earlier.

Mora sawnwood (Undressed) prices moved up during the period under review.

Dressed Greenheart sawnwood prices recorded a decline in the higher range price levels of the recent past. Prices fell from US\$ 1,272 to US\$ 1,060 per cubic metre. However, Dressed Purpleheart sawnwood export prices managed to move up compared to levels seen over the past month.

### **Processed wood products selling well in Caribbean markets**

Demand for BB/CC quality Plywood market was noteworthy and export prices as high as US\$ 589 per cubic metre were recorded during the period reviewed.

Guyana's Splitwood (shingles) continued to attract buyers and markets now extend to regions in the Pacific and Indian Oceans.

Guyana made Purpleheart doors attracted buyers in the Caribbean. For the first time in a long while some indoor furniture and door components found their way into the Suriname market.

### **First step in VPA – legality verification processes**

The EU FLEGT Facility News of December 2012 / January 2013 headlined that the Guyana – EU VPA negotiations have begun with a focus on verification systems.

The first VPA negotiation session between Guyana and the EU was held in Georgetown on 5 December. The parties aim to have the VPA ratified by September 2015.

The parties agreed that the VPA should build upon Guyana's existing timber legality verification systems. These verification systems, which have been functioning for years, are likely to provide a sound basis for developing a legality assurance system, to be defined as part of the VPA.

It was agreed that the final legality assurance system should be locally appropriate and should serve the needs of the people without putting undue burden on them.

The Guyana Forestry Commission has set up a national technical working group composed of representatives from the public sector, the private sector and indigenous groups to follow the negotiations and participate in consultations.

This working group represents the first step towards broad consultation with stakeholders, an essential aspect of the VPA process. The parties agree that effective and genuine stakeholder involvement is the key for ensuring a solid basis for the country's definitions of legal timber and the legality assurance system.

By entering into the VPA process, Guyana aims to demonstrate to international timber and wood-product markets that it can ensure robust timber legality and to strengthen its credibility in timber exporting. The next negotiation session will be held in June or July 2013

### **Community Forestry a major development thrust for the Forest Sector**

The Guyana Forestry Commission (GFC) has identified, as a priority action, the continuation of support to Community Forestry Associations to ensure the maximisation of benefits to forest based communities.

The support proposed will comprise training in sustainable forest management practices and participatory forest management as well as support for drafting operational guidelines for community forest activities.

### **2012 a very positive year for Community forestry in Guyana**

The GFC recorded a total of 65 Community Forestry Organizations (CFOs) with State Forest Permissions (SFPs) – these are forest concession leases of under 20,000 acres in State Forests.

To-date, community organisations in Guyana have been allocated 120 concessions or 25% of the total small concessions allocated. It is estimated that at least 6,000 persons gain employment through these community organisation operations in the forest which, in 2012, produced over 25% of the total production from all small forest concessions.

Many community organisations are also now exporting forest products to international markets and have expressed plans to expand business.

Empowerment of communities to manage forests in a sustainable manner is a crucial aspect of the GFC



Community Forestry programme. Community forestry will continue to be a focal area for the GFC in 2013.

#### Export Log Prices

Logs, FOB Georgetown		SQ - \$ Avg unit value per m <sup>3</sup>		
		Std	Fair	Small
Greenheart*		-	150	150
Purpleheart		365-385p	300-	215-250-
Mora		-1	130-	130-

\*Small SQ is used for piling in the USA and EU. Price depends on length. In the case of no price indication, there is no reported export during the period under review.

#### Export Plywood Prices

Plywood, FOB Georgetown Port			\$ Avg unit val. per m <sup>3</sup>
Baromalli	BB/CC	5.5mm	Not available
		12mm	450-1988
	Utility	5.5mm	No export
		12mm	"

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

#### Export Sawnwood Prices

Sawnwood, FOB Georgetown		\$ Avg unit val. per m <sup>3</sup>	
EU and US markets		-Undressed	Dressed
Greenheart	Prime	-	-
	Standard	-	945-1060
	Select	594-950-	
	Sound	-	
	Merchantable	551-679	
Purpleheart	Prime	-	-
	Standard	-	721-1102
	Select	1100	
	Sound	-	
	Merchantable	-	
Mora	Prime	551	
	Select	551	
	Sound	450	
	Merchantable	-	

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

### Report from Japan

#### Economic outlook from the Bank of Japan

The Bank of Japan (BoJ) Monetary Policy Board met in mid February and released its assessment of the Japanese economy. The BoJ report can be found at: [http://www.boj.or.jp/en/mopo/gp\\_2013/gp1302b.pdf](http://www.boj.or.jp/en/mopo/gp_2013/gp1302b.pdf). The following is a summary of the main features of the report.

It is the view of the BoJ that Japan's economy appears to have stopped weakening. However, the economies in the main countries with which Japan trades, except China, remain weak but are showing signs of bottoming out, says the report. While Japan's exports continue to fall the pace of decline has been easing recently. Private sector fixed investment remains weak but investment by the non manufacturing sector is encouraging, says the BoJ.

Public investment continues to increase and housing starts have improved and this, along with the steady pace of private consumption, is fuelling optimism that perhaps the worst of the economic stagnation is over.

In the words of the BoJ: "reflecting on these developments in demand both at home and abroad, industrial production appears to have stopped decreasing".

Japan's economy, says the BoJ report, is expected to level off and remain stable, eventually returning to a moderate recovery path as domestic demand improves due to the effects of various economic measures and as overseas economies begin to show positive signs of growth.

When overseas demand begins to strengthen Japan's export performance will start to improve. In the short-term it will be domestic demand and public investment that supports the economy. Business investment, says the BoJ is projected to remain weak especially in the manufacturing sector.

#### Energy imports drive up trade deficit

The weaker yen has adversely affected Japan's trade deficit which rose to a record US\$17 billion in January 2013. The rise was not wholly unexpected as the weaker yen had a big impact on import bills plus the fact that January is, traditionally, a slow month for exports.

The impact of the weaker currency was most apparent for energy imports which have soared since the shutdown of almost all the nuclear reactors in the country. Power generation is now almost entirely dependant on oil and gas, both of which have to be imported. Recent data shows that imports of natural gas increased by around 12% and oil imports were up over 30%.

Japan's export performance in January was encouraging, growing 6.5% from levels in 2012; however this was the first increase in eight months. This good news was tempered however by the 7% plus rise in the cost of imports.

Many observers expect the Japanese government to push to restart some nuclear reactors to cushion the impact of the weaker yen on energy import bills.

#### Weak yen, unexpected consequences for Japanese manufacturers overseas

The Trade and Industry Ministry is forecasting trade with China, the number one trading partner, should recover this year. In 2012 trade levels between the two neighbours fell for the first time in three years because of a territorial dispute and the slowdown in the Chinese economy.

The weaker yen also affected the trade deficit with China because Japan imports so much from the country. Much of the imports from China are of goods manufactured there by Japanese companies which fled Japan during the time the yen was so strong.

Because the yen has weakened, this 'escape' has the unexpected consequence of making imports from Japanese manufacturers located in China more expensive on the Japanese domestic market.



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

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

*The JLR requires that ITTO reproduces newsworthy text exactly as it appears in their publication.*

For the JLR report please see:

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

### Extracted from the Japan Lumber Reports:

Plywood supply in 2012

Imported South Sea plywood

South Sea logs

#### Plywood supply in 2012

Total plywood supply in 2012 was 6,074,400 cbms, 1.2% less than 2011 but total supply exceeded 6 million cbms for two straight years.

The market weakened since November 2011 by aftermath of heavy supply for restoration of earthquake and tsunami damage in March 2011 so that domestic softwood plywood manufacturers started production curtailment since mid 2012 to restore the market.

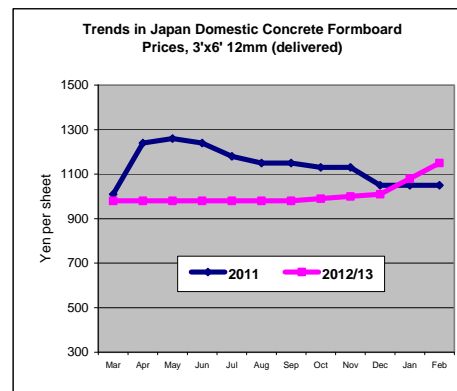
Meantime, the shipment remained rather high so that the production recovered in the second half of 2012. With bullish demand, imported plywood showed steady supply with share of import being 58% in 2012.

Total imported plywood was 3,525,900 cbms, 3.7% less than 2011 while domestic supply was 2,548,500 cbms, 2.5% more.

Overseas plywood suppliers have always demanded high prices but they have kept small price increase considering deflation in Japan so the buyers in Japan could keep buying.

Domestic softwood plywood production was 2,327,400 cbms, 5.9% more than 2011. The market had kept weak almost through 2012 due to heavy inventories but the shipments have kept high level since last April and the shipments recorded over 210 M cbms a month for three consecutive months since last October, supported by aggressive purchase by house builders and precutting plants.

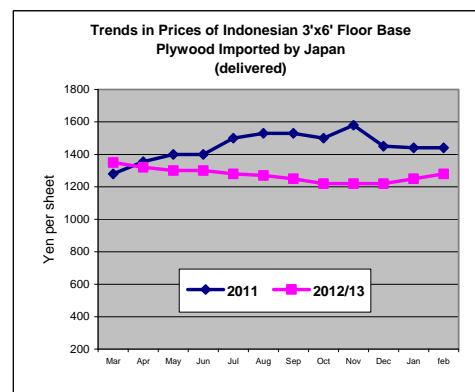
The manufacturers increased the production to cope with active demand and the production has kept over 200 M cbms for three consecutive months since last October. With the shipment surpassing the production, the inventories have kept dropping.



Data source: JLR



Data source: JLR



Data source: JLR

### Imported South Sea plywood

Prices of Japanese market and the suppliers' proposals are firming. In particular, prices of concrete forming panel are sharply climbing in Japan.

Prices of 3x6 concrete forming and concrete forming panel for coating increased by 120 yen per sheet due to ongoing depreciation of the yen.

The prices in Japan went up since late January because of considerable depreciation of the yen and future contract prices with the suppliers are much higher than current market prices. This causes speculative purchase supported by brisk demand and delayed shipment caused supply shortage.

Exchange rate of the yen dropped by 16% since mid November from 79 yen to 94 yen. 3x6 JAS concrete forming panel prices in mid November were 860-870 yen per sheet delivered but now they are 1,020 yen, 18% up. Prices of 3x6 concrete forming for coating are 1,150-1,160

yen, 100-130 yen higher than January. 12 mm structural panel prices are 1,020-1,050 yen, 70-100 yen higher than January.

Both floor base and standard panel are firm. Bullish floor manufacturers placed large orders but dollar based prices makes yen prices much higher due to rapid depreciation of the yen and floor manufacturers are not able to absorb cost increase.

Suppliers' prices on 12 mm x 945mm x 1,840 mm are in last December were \$670 per cbm C&F, \$20 up.

The prices in Japan now are 1,280 yen per sheet delivered, 20 yen up from January. Thin panel prices of 2.4 mm are 370-380 yen per sheet (type 2/F 4 star). 3.7 mm are about 480 yen (type one/F ☆☆☆☆). 5.2 mm are about 590 yen (same as 3.7 mm). Both are 10-20 yen up from January.

### **South Sea logs**

Log market in Japan has been firming since last month due to cost up by weak yen and the suppliers' offer prices are also firming.

Current market prices in Japan are about 8,200 yen per koku CIF on Sarawak meranti regular, 400 yen higher than January. January arrived Sabah kapur regular log prices are about 12,200 yen. Log prices have to go higher yet which squeezes plywood mills' profitability severely.

Mills are asking 10% higher prices on plywood but further hike is necessary.

Log producing regions are in rainy season. Sabah weather is particularly poor. Log production is down everywhere. Log prices are firm and inching up while demand in China is not so active and India buys necessary volume only as they are making inventory adjustment in India so there is no panic buying in limited supply.

Log inventories are way down in Malaysia and some plywood mill in Sarawak shut down because of shortage of logs.

Japanese buyers want to reduce FOB log prices to offset weak yen but on the contrary, log suppliers' offers are about \$5 up. India does not chase higher log prices.

Sarawak meranti regular prices are \$255-260 per cbm FOB. Meranti small prices are \$215-220 and super small are \$195-200. Ocean freight is up by \$1 per cbm since January, which pushes CIF cost up higher.

## **Report from China**

### **Bright interpretation of 2012 economic trends**

According to a report from National Bureau of Statistics of China the national economy performed well in 2012 and success was achieved with all social objectives and a solid foundation was laid for further improvement.

In 2012, gross domestic product (GDP) was RMB51,932.2 billion, up by 7.8 percent over 2011. Of this total, the value added of the primary, secondary and tertiary industry was RMB5,237.7 billion, RMB23,531.9 billion and RMB23,162.6 billion, accounting for 10.1 percent, 45.3 percent and 44.6 percent of the GDP, respectively.

Consumer prices in 2012 increased by 2.6 percent compared to levels in 2011, of this, food prices rose 4.8 percent. Producer prices and the purchasing prices for manufactured goods dropped 1.7 percent and 1.8 percent respectively.

At the end of 2012, China's foreign exchange reserves increased by US\$130.4 billion and at the end of the year the exchange rate was RMB 6.2855 to the dollar, an appreciation by 0.25 percent over that at the end of 2011.

The investment in fixed assets in 2012 was RMB37,467.6 billion, up by 20.3 percent over the previous year. The investment in assets in the eastern region was RMB15,174.2 billion, up by 16.5 percent over the previous year; in the central region it was RMB8,790.9 billion, a growth of 24.1 percent; in western region investment totalled RMB8,874.9 billion, a growth of 23.1 percent while in the northeast investment totalled RMB4,124.3 billion, up by 26.3 percent.

In 2012, retail sales of consumer goods reached RMB21,030.7 billion, a growth of 14.3 percent over the previous year. An analysis shows that retail sales of consumer goods in both urban and rural areas grew by roughly the same amount.

### **Substantial furniture exports in 2012**

The total value of trade (imports and exports) in 2012 was US\$3,866.8 billion, up by 6.2 percent over the previous year. Of this total exports were US\$ 2,048.9 billion, up by 7.9 percent. The value of imports was US\$1,817.8 billion, up by 4.3 percent.

The most recent data from the Ministry of Commerce is showing an increase in both imports and exports in January 2013. Imports rose more sharply than exports in January, an encouraging sign for the domestic economy. However the rise in imports created a trade deficit for the month.

The tables below illustrate growth by product and the main trading partners. It will be seen that 2012 furniture exports were substantial and grew by over 28% compared to a year earlier.

However, exports of wooden furniture slowed in 2012 growing by just 9% compared to the 10% plus growth rate reported for 2011. Metal furniture exports in 2012 were largely unchanged from a year earlier while exports of plastic furniture increased but at a slower rate than in 2011.

#### Value and growth of Exports in 2012 (US\$100's million)

	(100 million USD)	% change on 2011
Coal (including lignite)	16	-41.6
Rolled steel	515	0.5
Textile yarns and textile articles	958	1.2
Clothes and clothing accessories	1591	3.9
Footwear	468	12.2
Furniture	488	28.7
Automatic data processing machines and components	1853	5.1
Handheld mobiles and car telephones	810	29.1
Containers	84	-26.1
Liquid crystal display panels	363	22.9
Motor vehicles (including a complete set of spare sets)	127	27.5

#### Major countries trade with China (US\$100's million)

Country or region	Exports	Increase over 2011 (%)	Imports	Increase over 2011 (%)
USA	3518	8.4	1329	8.8
EU	3340	-6.2	2121	0.4
Hong Kong	3235	20.7	180	15.9
ASEAN	2043	20.1	1958	1.5
Japan	1516	2.3	1778	-8.6
S. Korea	877	5.7	1686	3.7
India	477	-5.7	188	-19.6
Russia	441	13.2	441	9.2
Taiwan, P.o.C	368	4.8	1322	5.8

#### Rate of Investment outflows exceed FDI inflows

In 2012 investment inflows resulted in the establishment of some 24,925 enterprises in the non-financial sectors, down by 10 percent over the previous year.

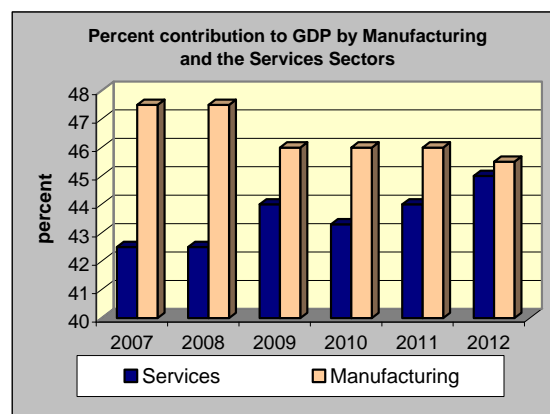
Investment overseas by Chinese companies and individuals totalled US\$77.2 billion, up by 28.6 percent over the previous year and the number of Chinese employees who travelled overseas to work grew by 13 percent to a total of 512,000

The Ministry of Commerce has released figures indicating that Foreign Direct Investment (FDI) in January 2013 fell by around 7 percent, a faster rate of decline than recorded in December 2012. The latest decline follows on from a period of declining FDI, a trend that began in mid 2012.

#### Rapid growth in service sector changing Chinese economy

In China manufacturing, mining, utilities and construction accounted for around 45% of the country's GDP in 2012. In the US and the EU the manufacturing sector contributes much less to GDP, for example in the US the equivalent sectors contribute only around 20-25% of GDP.

In the past the manufacturing sector in China, because of its importance in the economy, has attracted considerable government support. However, China's services sector has expanded quickly in recent years and the contribution to GDP of industries such as hotels, transport, wholesaling, retailing, food distribution and catering, finance and real estate has grown rapidly. In 2012 the contribution of 'services' to GDP almost matched that from the manufacturing sector.



The rapid growth in services, a sector dependent mainly on domestic demand, is having a fundamental impact on the structure of the Chinese economy moving it away from a dependence on exports to one focused on domestic consumption. Such a restructuring of the economy may result in faster job creation and better income distribution.

#### Hazardous air conditions in Beijing and northern China

According to the Ministry of Environmental Protection website,

[www.zhb.gov.cn/zhxx/hjyw/201302/t20130219\\_248190.htm](http://www.zhb.gov.cn/zhxx/hjyw/201302/t20130219_248190.htm)

China intends to impose emission limits on those industrial sectors causing the most serious air pollution the country has seen. The industries include coal-fired power plants, steel makers and chemical factories. Pollution in Beijing rose to a record high on January 12.

It has been reported that Beijing authorities will propose new regulations to address the air pollution issue. It is suggested that that in addition to restrictions on companies, polluting vehicles must be taken out of service and vendors must halt roadside barbecuing of food on smoggy days.

At present there are no indications that the wood processing industries will fall under the new regulations but there are fears that companies with large wood waste disposal incinerators could be affected.

The pollution currently affecting large parts of China has been carried east and has been detected in Japan. Reports indicate that pollution over some areas in western Japan exceeded government limits in mid February.

Of special concern is the concentration of an air borne particle 2.5 micrometres or less in diameter which is a health risk. Levels of around 50 microgrammes per cubic metre of air have been detected in northern Kyushu well above the 35 microgrammes safe limit set by the Japanese government.

#### Quality inspection and appraisal for wood products

China has launched an initiative to address violation of intellectual property rights and the illegal manufacturing of inferior, fake and counterfeit wood products by some timber enterprises. Many such products are marketed in the domestic market.

In tackling this problem the State Forestry Administration (SFA) has identified the need to first develop the necessary technology and then to assign authority to an agency to undertake the work of eliminating fake and counterfeit goods from the market.

This project is one of 18 national projects to combat violation of intellectual property rights and the manufacture fake and inferior products but is the only national project in the wood products sector.

It has been reported that the Chinese Academy of Forestry (CAF) will take the lead in developing the capacity to address this issue.

#### Guangzhou Yuzhu International Timber Market

yuan per cu.m		
<b>Logs</b>		
Lauan	Diameter 60 cm*	2000-2200
Kapur	Diameter 80 cm*	3100-3200
Merbau	Diameter 100 cm*	5500-5600
Teak	Diameter 30-60 cm	10000-13000
Wenge		4500-5500
<b>Sawnwood</b>		
Maple	Grade A	7500-9500
Walnut USA	FAS 2 inches	14000-16000
Cherry USA	FAS 2 inches	10000-12800
Sapelli	Grade A	6600-7000
Okoume	Grade A	4200-4500
Plantation Teak	Grade A	9600

#### Shanghai Furen Forest Products Wholesale Market

		yuan per tonne
<b>Logs</b>		
Red sandalwood (India)	All grades	1 - 2 mil.
Burma (Myanmar and Nepal)	All grades	7000-8800
Granadillo (Mexico)	All grades	7500-8000
<b>Sawnwood</b>		yuan per cu.m
Okoume (Africa)	grade A	3700-4000
Sapelli (Africa)	grade A	6300-6500
Beech (Europe)	grade A	4400-4800
Red Oak (North America)	FAS	7300-7500
Cherry (North America)	2 inches	9800-10000
Maple (North America)	2 inches	8000-8300
Sapelli (Africa)	2 ins FAS HD	6300-6500
Merbau (Indonesia)	All grades	8500-13500

#### Hangzhou Timber Trading Market

		yuan per cu.m
<b>Logs</b>		
Ash	4 m x 30 cm	3200-4500
Larch	4 m x 8 cm x 10	1800-2900
Linden	4 m x 26 cm	2200-3100
<b>Sawnwood</b>		
Beech ( Europe )	All grades	3200-4900
Black walnut ( America )	All grades	7000-13000
Teak ( Myanmar )	All grades	9000-18000
Red oak ( North America )	All grades	4200-7200
Alder ( Myanmar )	All grades	4500-5300
Merbau	All grades	7200-14500
<b>Plywood</b>		Yuan/sheet
Red beech	3mm	50-72
Black walnut	3mm	50-95
Teak	3mm	70-138

#### Shandong De Zhou Timber Market

		yuan per cu.m
<b>Logs</b>		
Larch	4m Lgth	1200
		1250
		1450
	6m Lgth	1230
		1250
		1500
White Pine	4m Lgth	1350
		1450
	6m Lgth	1350
		1450
Korean Pine	4m Lgth	1700
	6m Lgth	1750
Mongolian Scots Pine	4m Lgth	1360
		1500
	6m Lgth	1420
		1600

### Wenzhou Timber Trading Market

yuan per cu.m		
Logs		
Ash	2 m×20-30 ( cm )	1300
Chinese fir		
	4 m×16-18 ( cm )	1500
Wenge (Africa)	all grades	4500-5100
Teak (Africa)	all grades	2100-2500
Merbau	all grades	3500-5000
Spelli (Africa)	all grades	3200-3700
Plywood		
		yuan/sheet
Red beech	4'x 8'x 3 mm	40-80
Black walnut	4'x 8'x 3 mm	40-85
Teak	4'x 8'x 3 mm	45-110

### Report from Europe

#### No end in sight to recession in EU construction sector

Hopes of a speedy recovery for the European construction industry have been dashed. Forecasts issued at the latest Euroconstruct meeting held in Munich during December 2012 suggest that the euro crisis is continuing to hold European construction activity in check.

Activity is being curbed by high unemployment, stagnant economic growth or even economic downturns in many places, as well as the strained financial situation of the public sector.

In June 2012, construction experts from the 19 Euroconstruct member countries forecast a 2% decline in construction activity during 2012. However in December 2012, this forecast was revised to a 4.7% decline.

Contrary to their original forecasts, experts now predict further losses of around 1.6% for 2013 and only minor gains of 1% in 2014 and 1.9% in 2015.

With the debt crisis in Europe's peripheral countries showing no sign of resolution, even the minor recovery projected in 2014 and 2015 is uncertain. Ludwig Dorffmeister of the Ifo Institute, who presented the overall outlook for the European construction sector at the Munich conference, said, "economic developments lead to a change in forecasts and they are changing all the time."

Total construction value this year in the 19 Euroconstruct countries is expected to be 1.27 trillion euros (in 2011 prices). Construction value in 2013 will be below the level reached in the mid-1990s.

This means that the soaring growth in construction demand seen between 1997 and 2007 has been cancelled out during the six years since 2008.

In 2012 civil engineering looks set to be the most heavily affected with a decline of around 7.5%. A major factor has been a huge decrease in construction expenditure by public contracting authorities in Spain.

Downturns in the residential and non-residential construction segments of 3.5% and 4.2% respectively are less severe but still painful coming after 4 previous years of stagnant growth. All three sub-segments should also shrink in 2013.

#### Percent change in total construction output 2009 – 2012 (estimated)

Country	2009	2010	2011	estim. 2012
Austria	-7.1	-2.7	4.4	1.1
Belgium	-2.1	0.3	4.3	0.2
Denmark	-12.1	-7.7	2.5	0.5
Finland	-10.5	6.4	2.3	-3.4
France	-7.4	-5.9	4.3	0.3
Germany	-2.3	2.5	5.2	-0.2
Ireland	-33.6	-25.2	-19.1	-15
Italy	-8.3	-5.9	-2.6	-5.8
Netherlands	-6.2	-10.2	3	-6.9
Norway	-1.6	-0.1	5.1	4.7
Portugal	-9.8	-6.2	-10	-14.6
Spain	-22.4	-17.6	-20.1	-30.8
Sweden	-5.4	5.3	1.9	-2.4
Switzerland	3.5	2.8	2.3	1.1
United Kingdom	-12.3	7.6	2.3	-6.6
Western Europe (EC-15)	-9.2	-3.4	0	-4.8
Czech Republic	-1.3	-6.8	-3.9	-5.4
Hungary	-9.3	-9.1	-10.2	-9
Poland	4.9	4.6	11.8	1.6
Slovak Republic	-12.9	-3.6	-2.8	-13.3
Eastern Europe (EC-4)	-0.3	-0.9	4.2	-2.1
EUROCONSTRUCT Countries (EC-19)	-8.8	-3.3	0.2	-4.7

Source: EUROCONSTRUCT, December 2012



### Forecast and outlook 2013 – 2015 Percent change in total construction output

Country	Forecasts		Outlook
	2013	2014	2015
Austria	0.6	1.1	1.6
Belgium	0.1	1.1	1.4
Denmark	2.2	4.4	4.7
Finland	-2.3	0.8	2.1
France	-0.9	1	1.7
Germany	2.5	1.8	1
Ireland	-5.3	4.4	5.5
Italy	-1.4	1	1.4
Netherlands	-2.8	2	5.4
Norway	5.6	2.5	3.6
Portugal	-16.5	-1.6	1.7
Spain	-23	-6.3	-1.1
Sweden	0.2	2.6	2.7
Switzerland	2.5	2	0.5
United Kingdom	-2.1	1	2.6
Western Europe (EC-15)	-1.5	1.1	1.8
Czech Republic	-1.9	0.8	1.7
Hungary	0.9	3.4	4.1
Poland	-3.4	-1	4.2
Slovak Republic	-1	2.2	5.6
Eastern Europe (EC-4)	-2.5	0	3.7
EUROCONSTRUCT Countries (EC-19)	-1.6	1	1.9

Source: EUROCONSTRUCT, December 2012

### Developments in selected construction sectors (% change in real terms)

Segment	2009	2010	2011	2012 estim.
Total residential construction	-12.5	-1.9	2.1	-3.5
Total non-residential construction	-9.5	-5	0	-4.2
Total civil engineering	0.1	-3.4	-2.9	-7.5
Total construction output	-8.8	-3.3	0.2	-4.7
New building	-18.4	-7	1.4	-5.6
Building renovation	-3.6	0.2	1	-2.3
Total building	-11.2	-3.3	1.2	-3.8

Source: EUROCONSTRUCT, December 2012

### Forecast development in construction sectors (% change in real terms)

Segment	2013	2014	2015
Total residential construction	-0.8	2.3	2.8
Total non-residential construction	-2.1	0.3	1.4
Total civil engineering	-2.5	-0.7	0.8
Total construction output	-1.6	1	1.9
New building	-2.3	1.9	3.2
Building renovation	-0.5	1.2	1.5
Total building	-1.3	1.5	2.2

Source: EUROCONSTRUCT, December 2012

The most distressed construction markets in Europe this year continue to be the debt-ridden peripheral countries. Spanish construction output fell by over 30% during 2012. This followed falls of -22.4%, -17.6% and -20.1% in 2009, 2010, and 2011.

A further fall of -23% is forecast in Spain this year. Portugal and Ireland also experienced double-digit declines in construction output in 2012.

However, there is moderate growth forecast for some key countries. At €273 billion (US\$ 355 million), Germany is Europe's largest construction market. Following a -0.2% decline in 2012, growth in German construction is expected to resume this year, with a +2.5% increase in output. Low single-digit growth is also forecast in 2013 for Denmark, Norway, Sweden and Switzerland.

These countries, with lower debts, are attracting investment capital thanks to their relative economic stability. Investments in these countries are focusing on tangible assets, including real-estate.

Moreover, Ireland is currently proving that economic and financial problems are not necessarily a "never-ending story".

Ireland's improving economic situation is expected to have a positive effect on construction demand in the near future. After sustaining serious losses, construction activity in Ireland should rebound in the next 12 months.

### European joinery market under pressure

The downturn in construction sector activity has inevitably led to a period of uncertainty and tough trading conditions in Europe's joinery sector. There is considerable competition between manufacturers of doors, windows and stair parts. Competition between suppliers of materials to those manufacturers is also intense.

Wood is under pressure to maintain share following innovations in plastics, metal and surfacing technologies. With margins so tight, many wood joinery companies lack the confidence and ability to invest in future growth.

On the other hand, even in a downturn, European construction continues to absorb large volumes of joinery

products. Those companies with sufficient capital behind them, which understand and are responsive to their customers' needs, and which are brave enough to innovate, are creating new opportunities and increasing share.

A good example is the Howden Joinery Group (HJG), a UK based company which, according to the Timber Trades Journal, is now the UK's largest supplier of kitchens.

The company only began trading in 1995 and now has 520 outlets, 6000 employees, and achieved a turnover of £900 in 2012, a 5% gain on the previous year.

The company identified that a key trend in the UK kitchen furniture market was increasing reliance on small local builders for installation. Do-it-yourself has become less of an option as kitchens have become more complicated. In response, HJG has developed a huge client list of small building contractors and property owners across the UK.

The company supplies a wide and customisable range of kitchen components and provides builders with all the support they need to manage kitchen installation projects. The company closely monitors consumer trends and technical developments and regularly develops new product lines. If a customer wants to return or replace any product, for whatever reason, it's done without question.

#### European manufacturers dominate domestic joinery market

The experience of HJG goes some way towards explaining why Europe's joinery sector remains so heavily dominated by domestic manufacturers. The vast majority of doors, windows, kitchens and stair parts installed in the EU, are also manufactured in the EU.

Most of the wood material and components supplied into this sector – including mouldings, finger-jointed lumber and glulam – is also domestically produced.

External suppliers have struggled to penetrate the European joinery sector. Success in the sector requires detailed knowledge of changing consumer tastes and regular contact with a large and generally fragmented network of building contractors.

It requires responsiveness to customer concerns. Suppliers of joinery products also need to be willing and able to adhere to an increasingly complex range of quality and environmental standards established at European and national level in the EU.

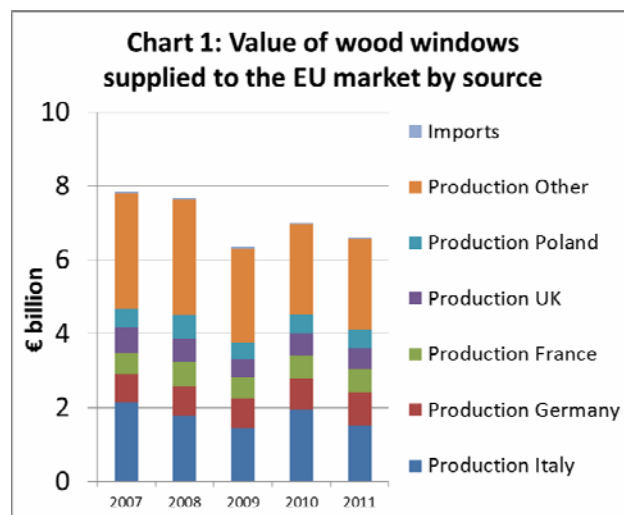
#### European wood window production boosted by energy efficiency measures

Recent trends in supply of wood windows to the European market are shown in Chart 1. In 2011, the latest year for which data is available, total supply of wood windows to the EU was valued at €6.6 billion, 16% less than prior to the recession in 2007.

The recent downturn is mainly due to a decline in window production in Italy, Europe's largest window manufacturing country.

Production elsewhere in Europe has remained quite stable. Stricter energy regulations introduced in many EU countries has helped create new demand for energy-efficient windows in Europe over recent years.

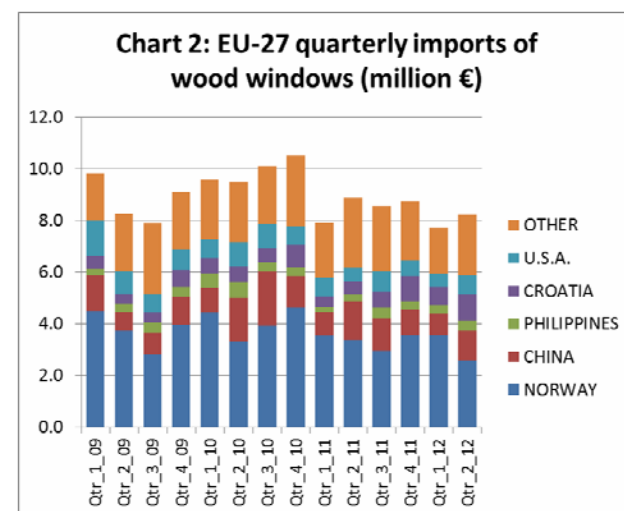
This has helped maintain wood window production even as the overall value of construction has fallen in most European countries.



Imports of finished windows make up only a tiny and declining proportion of the total European wood window market. In 2011, imports accounted for only 0.5% of the total market, down from 0.8% in 2007.

Chart 2 shows recent quarterly trends in European wood window imports. In 2011, the EU imported wood windows with a total value of €34.2 million.

China was the second largest external supplier, accounting for €4.6 million (14% of total EU imports) in 2011.



Competition with non-wood materials in the window sector has been very intense in recent years. Prior to the

recession, the overall share of wood in European window manufacturing fell from around 30% in 1998 to 25% in 2008.

The main beneficiary was plastic which accounted for around 45% share in 2008. Plastics' dominance is due to a combination of low priced product, strong marketing and distribution networks, and constant innovation to improve thermal insulation, aesthetics and recycling.

However over the recessionary period, wood windows have performed reasonably well compared to substitutes. There have been improvements in the quality of products and services provided by the wood window sector. There has been a concerted shift to fully factory finished units offering long service life guarantees.

At the same time, emerging concern for environmental issues and energy efficiency has helped improved competitiveness of wood windows.

The most widely used wood materials used for windows in Europe are pine in solid form and laminated spruce. Denser slower growing grades of oak are also quite widely used for higher value window frames, either in solid form or increasingly in laminates.

Tropical wood is now restricted to a small-volume high-value niche. Even in this niche, tropical wood's position is coming under considerable and intensifying pressure from alternatives.

Domestic wood dominates material supply to the European wood window sector. During the recession, the tendency to rely on local species has tended to increase. Most window manufacturers require timber of consistent quality to be readily available, increasingly on a just-in-time basis.

At the same time, the move to fully-factory finished windows has increased the focus on consistent compliance with very tight size specifications to avoid wastage and technical standards for strength, durability, and stability. This is becoming progressively more important than factors such as versatility and ease of on-site working which have often favoured imported products such as tropical hardwoods in the past.

These latter trends have particularly encouraged increased use of engineered wood products in the sector. A few external wood products suppliers have been able to exploit these trends.

Some Chinese, together with Malaysian and Indonesian manufacturers have developed and now supply laminated products to the European wood window sector (see Glulam below).

#### European door industry declined sharply in recent years

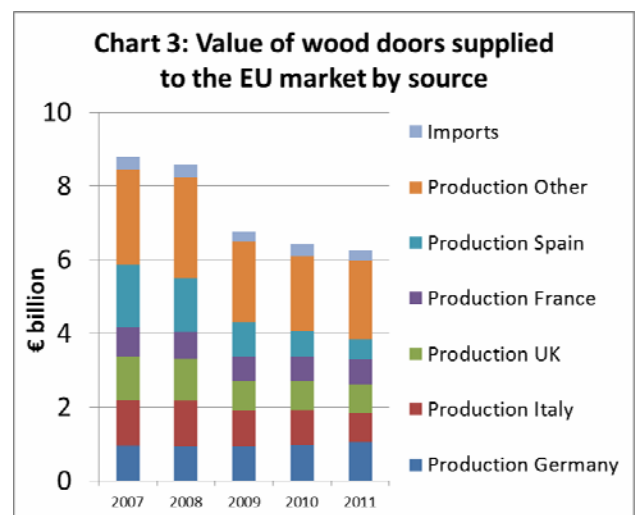
The EU market for wooden doors has declined more sharply than the market for wood windows in recent years

(Chart 3). Total supply of wood doors to the EU market was valued at €6.3 billion in 2011, nearly 30% less than before the recession in 2007.

By far the biggest fall in production was in Spain, formerly the EU's largest wooden door manufacturer, with total output of €1.71 billion in 2007 falling to only €0.55 billion in 2011.

Wood door production has also fallen quite steeply in UK and France over the last five years. However wood door production has increased slightly in Germany during this period, in line with generally more robust construction activity.

Demand for wood doors in Germany also received a boost from energy-saving measures. Germany is now Europe's largest wood door manufacturer with production value of over €1 billion in 2011.



“Real wood” doors manufactured in Europe are now rarely made from solid timber and instead are manufactured using veneered panels and finger-jointed timbers. Doors with a real wood veneer have also been losing share to doors manufactured using High Pressure Laminate (HPL) foils and white lacquered products.

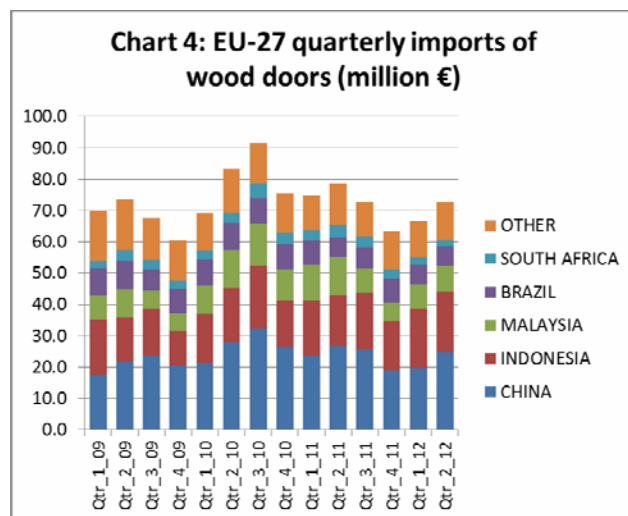
This is for various reasons. It is partly due to a shift in overall door production from Southern European countries such as Spain and Italy, which strongly favoured real wood veneer, to Germany where there is a very sophisticated foil and laminates industry. Real wood veneers are also relatively expensive.

Wood veneer manufacturers also complain that there is a low level of awareness of the value of real wood doors amongst architects, designers, and builders merchants.

External suppliers play a relatively small part in the EU market for finished doors, although their market penetration is higher than in the wood window sector. In 2011, imports accounted for 4.6% of the total market, up from 3.9% in 2007.

Chart 2 shows recent quarterly trends in European wood window imports. In 2011, the EU imported wooden doors

with a total value of €290 million. China was the largest external supplier, accounting for €95 million (30% of total EU imports) in 2011.



#### Glulam increasingly important in the EU joinery sector

There is a strong trend towards increased use of engineered wood products in Europe. This trend has particularly benefitted Glue Laminated Timber (Glulam). Glulam, comprising several layers of small-sized dimensioned lumber glued together into a single component, is used widely both structurally and for joinery applications.

Glulam offers numerous technical and environmental advantages. Glulam has a high strength to weight ratio, is naturally durable and robust, has good fire resistance, and performs consistently and predictably. It can be used structurally to create vast interior spaces with no internal supports.

Glulam also allows efficient use of small dimension material to produce stable, strong and yet light products in a very wide range of sizes.

Glulam has proven particularly well suited to manufacture of modern factory-finished joinery products conforming to tough quality and environmental standards and offered with life-time guarantees.

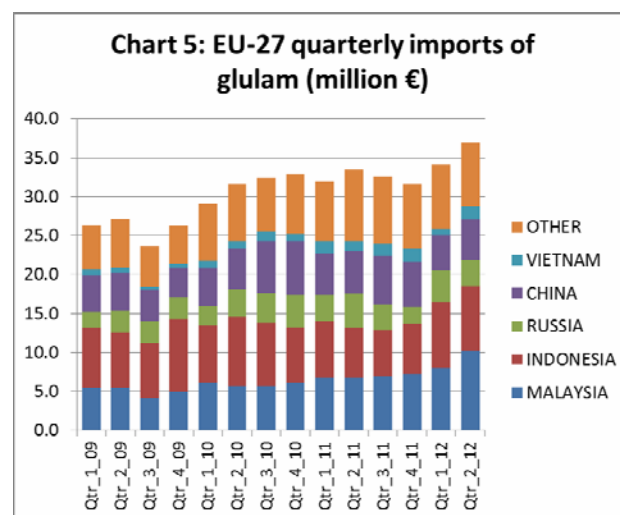
Glulam has also been a major beneficiary of the move to install highly insulated triple-glazed windows in parts of Europe, notably Germany, as a measure to increase energy efficiency.

This has required window framing materials that are extremely strong but also light-weight, a combination of readily achieved by glulam but which only a few expensive wood species can achieve in their natural state.

Europe is now the world's largest market for glulam, accounting for close to 60% of all global consumption in 2010. In that year, Europe consumed around 2.8 million m<sup>3</sup> of glulam, down from a peak level of 3.3 million m<sup>3</sup> in 2007.

Imports form a small, but increasing, component of overall supply. In 2010, around 135,000 m<sup>3</sup> (5%) of EU glulam consumption was imported. The leading external suppliers of glulam to the EU are Malaysia and Indonesia, followed by China (Chart 5).

In 2011, EU imports of glulam from China had a value of €22.5 million, around 17% of total EU imports of €129 million.



European glulam producers are concentrated in Germany and Austria. Their sales are primarily focused on the European market, the only exception being inter-regional sales to Japan. A large proportion of European production is focused on spruce as attempts to establish pine products on the European market have only been partially successful.

Larch glulam has also come to be appreciated by specifiers wishing to ensure a greater degree of natural durability without the necessity for pressure treatment. Amongst hardwood species, European oak and American white oak are most regularly used for manufacturing glulam in Europe. Hardwood glulam imported into Europe from South East Asia comprises mainly meranti.

While Germany and Austria have traditionally been the key markets for glulam, Italy showed very rapid growth in consumption of glulam in the 12 years up to 2010 – from 100,000 m<sup>3</sup> in 1998 to 870,000 m<sup>3</sup> in 2010, after a high of 1,050,000 m<sup>3</sup> in 2007.

The rise in consumption of glulam in Italy can be attributed to its use in the construction of homes, home patios and agricultural buildings.

While the European glulam market has grown over the last decade, it is currently suffering from saturation. Glulam production in both Austria and Germany grew steadily between 2000 and 2010, but the increased production capacity outstripped domestic demand.

Producers therefore focused strongly on increasing exports, notably in Italy, France, and Japan. However,



opportunities in these countries are now constrained by weak construction sector activity.

Successful participation in the European glulam sector is a complex and capital intensive process. Supply of glulam is subject to standards covering the production process, quality control, production technique/technology, computer-analysis processes, and construction safety documentation.

The general requirements for glulam are defined in the EN14080 standard. Mechanical properties are established or experimentally defined with procedures prescribed in the EN408 standard. Glulam strength classes are described in EN1194 (Wood Constructions – Glued Laminated Timber – Strength Classes and Determination of Characteristic Values).

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

#### **ETTF launches trade monitoring project**

The first of a series of analytical reports from the European Timber Trade Federation (ETTF), designed to monitor the impact of the EU Timber Regulation on EU timber trade flows, has been launched on [www.ettf.info](http://www.ettf.info).

Baseline reports, which can be downloaded, were commissioned from Forest Industries Intelligence (FII), with funding from the UK's Department for International Development (DFID) and complement quarterly statistical reports in the ETTF's Quarterly Newsletter.

The ten baseline reports cover the EU as a whole, and the nine countries belonging to the ETTF; Belgium, Denmark, France, Germany, Greece, Italy, the Netherlands, Spain and the UK.

According to report author Rupert Oliver of FII, there are key questions over the potential effect of the EUTR on the day to day trade of the EU timber industry, including whether it will make wood more or less competitive against rival materials, affect demand for certified sustainable and legally verified products, or divert trade to countries with less rigorous controls against illegal timber entering their markets.

The report series will monitor these and other areas, providing vital information to both businesses and national and EU authorities involved in the implementation and enforcement of the EUTR.

Subsequent reports will include in-depth interviews with traders, as well as statistical analysis, to assess the extent of changes in the trade after the EUTR comes into effect.

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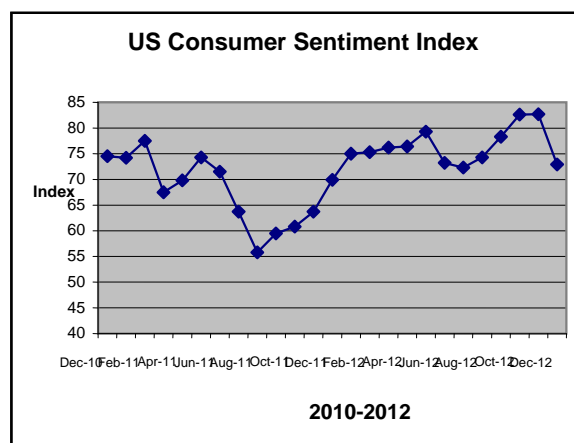
## **Report from North America**

### **Federal budget problem affects consumer confidence**

US consumer confidence in the economy dropped sharply in December, after consumers became more positive in autumn of 2012. The Thomson Reuters/University of Michigan consumer sentiment index fell to 72.9 in December, which is still above the level in December 2011.

The majority of consumers expected a lower personal income and a slowdown in economic growth in 2013.

The government reached an agreement to avoid the 'fiscal cliff' only at the last moment on December 31. Without an agreement, taxes would have automatically increased and government spending declined in 2013. As a result consumers worried about higher taxes and a possible economic recession. Spending was little affected, however, because of discount prices and record low interest rates.



Data source: Thomson Reuters/University of Michigan Surveys of Consumers

US interest rates remain unchanged with the target range for the federal funds rate between 0 and 0.25. The Federal Reserve has started its third round of quantitative easing last September. The Fed is buying Treasury and mortgage-backed securities to reduce long-term interest rates and stimulate the US economy.

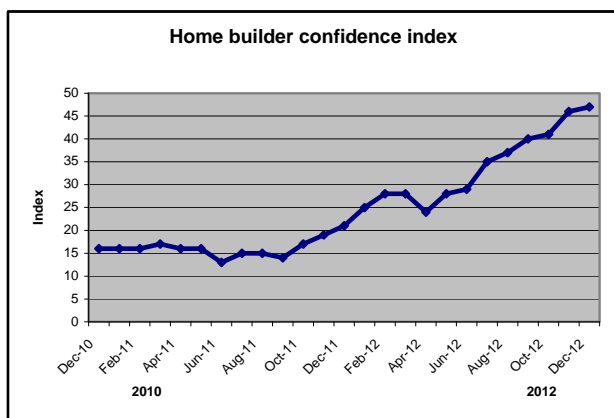
### **Home builder confidence good**

The confidence in the market for new single-family homes grew again in December, according to the Housing Market Index by the National Association of Home Builders/Wells Fargo.

The confidence index has climbed for eight consecutive months now, which reflects the stronger home sales and the declining number of foreclosed on the market.

The index is close to 50 now, but two components of the index that measure the builders' sales expectations are at 51. If the index climbs over 50, the majority of home builders regard market conditions as good.





Data source: National Association of Home Builders/Wells Fargo Housing Market Index

### Existing home sales and building permits on the rise

The market for new homes continues to recover and housing is now one of the strongest sectors of the US economy. Sales of new single-family homes increased by 4.4% in November.

The shrinking supply of homes for sale supports the recovery in new construction. The National Association of Realtors reports that the supply declined to 4.8 months, which is the lowest supply in more than seven years.

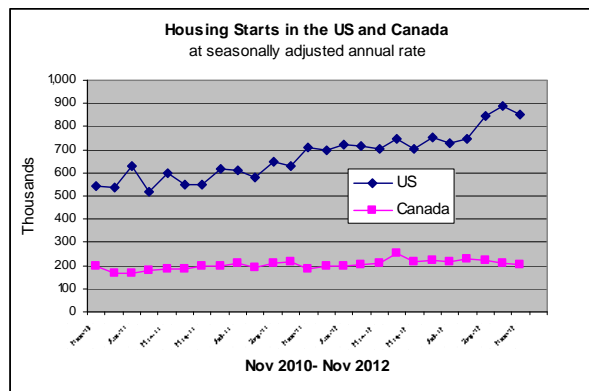
The National Association of Home Builders also cites low mortgage rates, attractive home prices and the economic recovery as reasons for the gradual improvement in the sales of new homes.

Housing starts declined by 3.0% in November to 861,000 units, at a seasonally adjusted annual rate. Single-family housing starts fell by 4.1%, while multi-family housing starts declined by just 1%. The share of single-family homes in total starts remained at 66%, down from over 70% during the summer.

The latest data for building permits is positive, with an increase of 3.6% in permits issued for new construction. The number of permits rose to 899,000 units (seasonally adjusted annual rate), which is the highest level in four years.

However, the increase was mainly driven by a 10.6% growth in permits for multi-family construction. The number of permits issued can be an indicator of future building activity.

In Canada, housing starts declined by 3.7% to 201,376 in November (seasonally adjusted annual rate). The number of permits issued in October increased for multi-family construction (+16.3%), while permits for single-family homes declined (-6%). The decline was expected as the government tightened mortgage rules to cool the housing market.



Data source: US Census Bureau, Canada Housing and Mortgage Corporation

### Non-residential construction largely unchanged

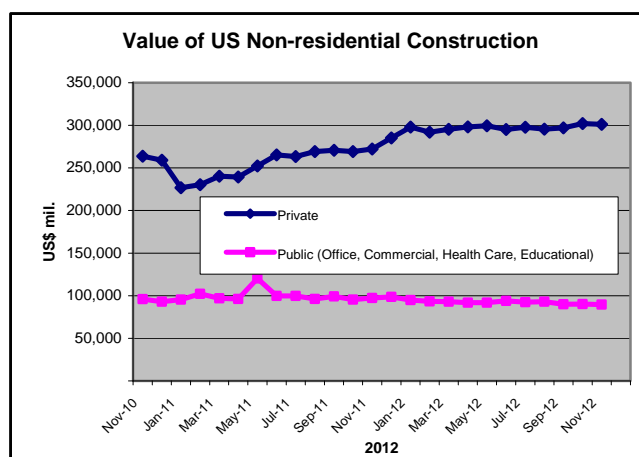
The latest construction spending data by the US Census Bureau showed no noticeable upturn in non-residential construction.

Total spending declined slightly (-0.6%) in November 2012. Private construction spending decreased by 0.7% from the previous month, while public construction declined by 0.4%. Public commercial construction was a bright spot with 8.6% growth from October.

Architectural firms finally reported improving business conditions for commercial and industrial projects, according to the Architecture Billings Index. Institutional construction is still weak because of the fiscal situation at the federal government level.

When looking forward to business conditions in 2013, architecture firms expect the recovery to continue, but growth in demand for non-residential projects will likely remain subdued.

### Value of US non-residential construction



Data source: US Census Bureau

### Higher hardwood plywood shipments from Indonesia and Ecuador

US imports of hardwood plywood were practically unchanged from the previous month at 201,295 m<sup>3</sup> in November 2012. Year-to-date imports were 7% above the previous year. China's share in total imports year-to-date is unchanged at 66%.

Imports from Indonesia fell in November, but year-to-date shipments to the US are still 19% above 2011.

The strong increase in imports from 'other' suppliers in November was mainly in shipments from Ecuador. Year-to-imports from Ecuador have grown dramatically (+81%) to 41,591 m<sup>3</sup>.

#### US imports of hardwood plywood cu.m

	Year to Nov 2012	Year to Nov 2011	% change
US Total imports	2,363,244	2,203,885	7%
China	1,551,077	1,459,229	6%
Russia	224,141	218,782	2%
Indonesia	211,400	178,123	19%
Malaysia	92,344	86,725	6%
Canada	84,887	83,950	1%
Ecuador	75,202	41,591	81%
Other	284,282	261,026	9%

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

### Growth in moulding imports from Malaysia

Total moulding imports increased in November 2012 to \$64.8 million. Hardwood moulding imports, however, declined to \$12.2 million, which corresponds to a year-to-date decline of 10% compared to November 2011. Imports from Brazil and China fell, while Malaysia increased shipments by 23% (year-to-date).

#### US imports of hardwood moulding

	Year to Nov 2012	Year to Nov 2011	% change
US Total Imports	169,993,614	188,246,065	-10%
Brazil	53,106,972	64,597,914	-18%
China	51,953,531	55,967,506	-7%
Malaysia	16,406,617	13,305,064	23%
Canada	14,300,232	13,617,586	5%
Other	34,226,262	40,757,995	-16%

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

### Hardwood and preassembled wood flooring imports higher

US imports of assembled flooring panels and hardwood flooring increased to \$14.7 million in November 2012, up from \$13.6 million in October. Year-to-date imports of assembled flooring panel increased by 9% from the previous year. China's import share remains at 68%, down from 71% in 2011. Indonesia and Brazil both increased their share in total US imports to 4%.

Hardwood flooring imports grew again in November, with year-to-date imports substantially higher (62%) than in 2011. Indonesia will likely be the largest source of hardwood flooring imports by the end of the year, with \$11.9 million exported year-to-date November. Malaysia

and – to a lesser degree – China also boosted hardwood flooring exports to the US.

### Vietnam, Malaysia and Mexico ship more furniture to US

US imports of wooden furniture were worth \$1.108 billion in November. Year-to-date imports were up 9% compared to 2011. China's exports were \$584.2 million in November, a year-to-date increase of 9% compared to the previous year.

Imports from Vietnam were \$172.0 million, an increase of 22% from 2011. Imports from Malaysia and Mexico also saw strong growth at 10% and 19%, respectively.

#### US imports of wooden furniture (excluding furniture parts)

	Year to Nov 2012	Year to Nov 2011	% change
US total imports	11,574,488,423	10,683,705,083	8%
China	5,712,472,847	5,261,258,874	9%
Vietnam	1,761,021,034	1,443,256,548	22%
Canada	1,007,739,975	999,322,840	1%
Malaysia	597,520,934	542,076,375	10%
Mexico	458,881,436	385,850,016	19%
Indonesia	467,051,871	430,822,036	8%
Other	1,569,800,326	1,621,118,394	-3%

Data source: US Census Bureau Foreign Trade Division

### Strong outlook for US green building market

The market for green residential and non-residential construction maintains strong growth in the US, even when overall construction activity was down.

Three market reports have recently analysed the outlook for green building construction in the US and other countries:

- McGraw Hill Construction: 2012 World Green Building Trends
- McGraw Hill Construction: 2013 Dodge Construction Outlook
- Turner Construction Company: Green Building Market Barometer 2012

All reports see growing demand for green building products and practices, especially for commercial buildings. The majority of US companies believe that the public expects them to integrate sustainability into their business.

The green building market was an estimated \$85 billion in 2012 and is expected to exceed \$200 billion by 2016, according to the Dodge Construction Outlook.

In the residential market, about 20% of homes built are considered 'green'. The Dodge report forecasts that the share of green homes will increase several percentage points every year. One third of US builders expect they will build only green homes by 2016.

Green building has many aspects, including environmental impacts and the impacts on the health of the building occupants. The health-related benefits of green building were the most important reason for companies to build green, according to Turner's Green Building Market Barometer. Indoor air quality remains a key concern, which is directly linked to the products and materials used in the finishing.

LEED remains the leading system among the green building certifications in the US. But companies are less likely to seek certification under LEED than four years ago, according to Turner's Green Building Market Barometer.

Less than half of the companies surveyed seek LEED certification, compared to over 60% in 2008. Other systems, such as Energy Star, are becoming more widely used, and companies also develop more often internal standards for green building instead of seeking external certification.

In California, many cities require LEED certification for public buildings. A recent study: Harvard Business School: Public Procurement and the Private Supply of Green Buildings (by Timothy Simcoe and Michael W. Toffel) found that where this requirement exists, the private sector built almost twice as many LEED-certified buildings compared to other cities.

The study indicates that product standards set by government procurement policies can transfer to the private sector, even if without regulations or laws.

#### **Use of Health Product Declarations in green building**

The US Green Building Council, which runs the LEED certification system, has received a \$3 million grant from google.org, according to a press release by the Council.

The grant will help develop software that allows architects and builders to interpret the Health Product Declarations of products. Health Product Declarations disclose information about the health impacts of building products. This information is also used in Environmental Product Declarations.

Similar to the Environmental Product Declarations, it is the building product manufacturers who develop Health Product Declarations for their products, but the new software will make it easier to understand and compare the product information when designing green buildings.

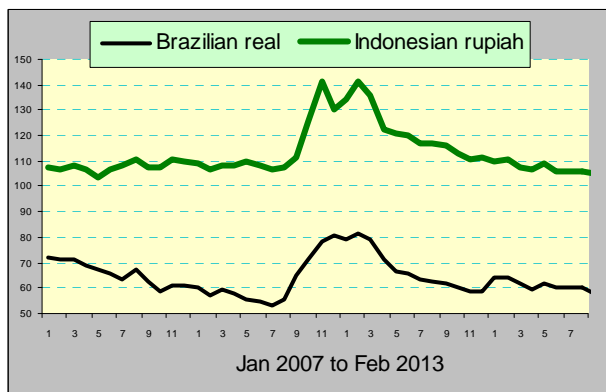
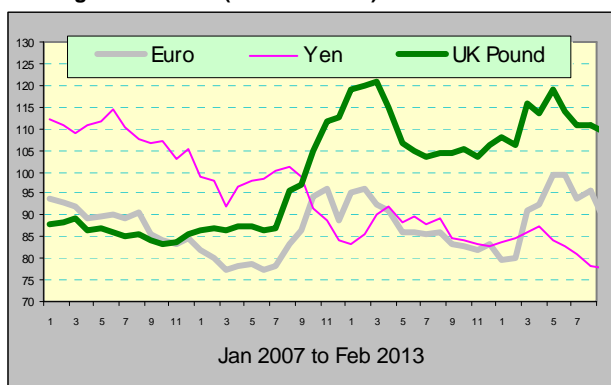
**Disclaimer:** *Though efforts have been made to keep prices near to accurate, these are published as a guide only. ITTO does not take responsibility for the accuracy of this information.*

## Main US Dollar Exchange Rates

As of 21st February 2013

Brazil	Real	1.9729
CFA countries	CFA Franc	497.46
China	Yuan	6.235
EU	Euro	0.7581
India	Rupee	54.2805
Indonesia	Rupiah	9709
Japan	Yen	93.41
Malaysia	Ringgit	3.1017
Peru	New Sol	2.5863
UK	Pound	0.6595
South Korea	Won	1085.4

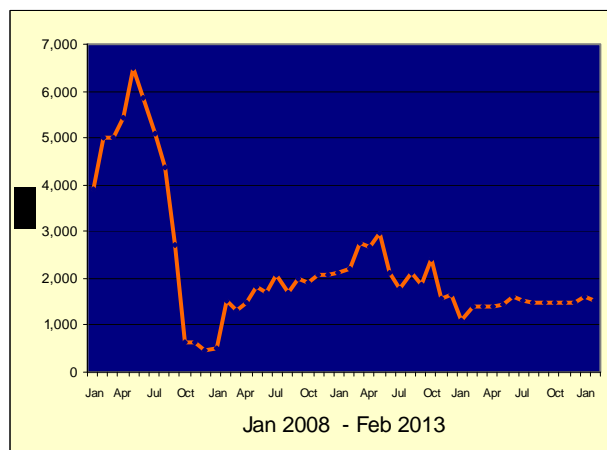
Exchange rates index (Dec 2003=100)



## Abbreviations and Equivalences

Arrows	Price has moved up or down
BB/CC etc	quality of face and back veneer
BF, MBF	Board foot, 1000 board foot
Boule	bundled boards from a single log
CI, CE, CS	Supplimentaire
CIF, CNF	Cost insurance and freight
Clean Sawn	square edged boule
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
OSB	Oriented Stand Board
PHND	Pin hole no defect
QS	Qualite Superieure
SQ,SSQ	Sawmill Quality, Select Sawmill Quality
TEU	20 foot container equivalent

## Ocean Freight Index



The BSI (Baltic Supramax Index), published by the Baltic Exchange, is the weighted average on 5 major time-charter routes. It is based on a 52,454 mt bulk carrier carrying commodities such as timber.

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