

Tropical Timber Market Report

Volume 17 Number 10, 16th – 31st May 2013



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

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Top Story

Implementation of EUTR before VPAs ratified creates dangers for tropical timber

Tropical timber markets are at risk because the EUTR has been introduced before any tropical timber supplier is able to offer FLEGT licensed timber. The gap in timing between introduction of EUTR and supply of FLEGT licensed timber is creating uncertainty in the market.

If EU importers are discouraged from buying from VPA countries due to legal uncertainties in the intervening period and instead seek out substitutes it will be difficult for tropical timber exporters to claw back their market share once FLEGT timber becomes available.

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Securing good quality peeler logs a problem for plymills

A few minor log and sawnwood price changes were reported during the second half of May. Log prices appear set to move higher as sawmills and plywood manufacturers in the region report a tightening of log supply.

For plywood manufacturers the biggest problem is the availability of top quality logs for production of face veneers. The growing difficulty in securing good quality okoume peeler logs could eventually mean plywood output falls.

The shortage of okoume is driving manufacturers to test alternative species for face veneer. While the technical issues arising from using new species can be solved, companies face a difficult time marketing new products in very competitive markets.

Log exports continue from Cameroon and Congo Brazzaville and there are reports of some log supplies from Equatorial Guinea reaching the international market.

Investment plans on hold until EU demand recovers

Some sawmillers say they are struggling to source sufficient logs to maintain production of existing orders. However, because markets in all EU member states remain quiet, some of the pressure on producers arising from an inadequate supplies of logs has been eased.

Across the region there are few reports of new orders for sawnwood as European buyers are currently well stocked with West African hardwoods and are not inclined to confirm new business.

In the short-term, weak construction activity in Europe will dampen demand. There are few signs of an immediate expansion of building activity in the EU so it seems likely that demand will remain subdued well into the third quarter.

Companies in the region are reluctant to begin expansion plans while demand in the main markets, especially the EU, is weak. Adding to the concerns of companies in the region is the slow progress in implementation of government funded infrastructure projects in some countries. Analysts report that in some countries in the region poor physical infrastructure is a serious handicap to efficient trade.

Sapele prices continue volatile swings

Sawnwood prices are currently stable but, should the log supply worsen, this could change. If log prices increase because of availability issues then this will inevitably lead to opportunities for some modest increases in export prices for sawnwood even though demand is slack.

At the moment sapele sawnwood price movements are in the news again but because prices are under a downward pressure. This is because, while demand is steady, there

are fears in the market that over-production could trigger a fall in prices. Trade sources suggest that some sapele producers will slow production to try and stabilize the market.

Demand for padouk sawnwood is reported as weak because importers in the main markets India and Belgium are well stocked at present.

Industry adjusting to changes in species availability

Forestry authorities in the region are now strictly monitoring concession holders and any infringement of regulations or failure to follow agreed management plans by concession holders is penalised immediately.

Recognising the changes that are taking place in terms of availability of raw materials some West and Central African producers are reviewing their business plans and restructuring or closing some mills and concentrating production on species more common in their concessions.

Log Export Prices

West African logs, FOB	€ per m ³		
Asian market	LM	B	BC/C
Acajou/ Khaya/N'Gollon	215	215	-
Ayous/Obeche/Wawa	220↑	210	150
Azobe & Ekki	215↑	215↑	140↑
Belli	220	220	-
Bibolo/Dibétou	145	130	-
Iroko	265↓	220	215
Okoume (60% CI, 40% CE, 20% CS) (China only)	245	225	200
Moabi	285↑	280	-
Movingui	185	155	150
Niove	165	165	-
Okan	285↓	300	-
Padouk	340	320	235
Sapele	270	255	175
Sipo/Utile	320	290	175
Tali	280	280	-

Sawnwood Export Prices

West African sawnwood, FOB	€ per m ³
Ayous FAS GMS	330
Bilinga FAS GMS	515
Okoumé FAS GMS	480
Merchantable	290
Std/Btr GMS	340
Sipo FAS GMS	550
FAS fixed sizes	-
FAS scantlings	520↑
Padouk FAS GMS	860
FAS scantlings	-
Strips	-
Sapele FAS Spanish sizes	480
FAS scantlings	505
Iroko FAS GMS	580
Scantlings	600
Strips	435↑
Khaya FAS GMS	430
FAS fixed	465
Moabi FAS GMS	550
Scantlings	550
Movingui FAS GMS	400

Market prospects for third quarter difficult to assess

The outlook for the West and Central African producers is difficult to judge. On one hand, raw materials are becoming increasingly difficult to secure which should result in price increase but, on the other hand, market

demand is still very subdued which is having the opposite effect on price movements. Market prospects for the third and final quarter of the year are difficult to assess

Report from Ghana

Rules on VPA rules of arbitration and procedure agreed

Ghana's Minister of Lands and Natural Resources Alhaji Fuseini has said the country's cooperation with the EU and others will continue until illegal logging and trade in illegally sourced and manufactured wood products is eliminated.

Mr Alhaji Fuseini made the remarks at a ceremony in Accra where a new Aide Memoire was signed with the European Union. The signing of the Aide Memoire took place after the fifth meeting of the Joint Monitoring Review Mechanism (JMRRM) from 28-31 May. At this meeting the discussion centred on mechanisms for supervision and review of the implementation of the VPA.

The outcome of the JMRRM was agreement on the development of a joint framework to monitor the impact of VPA implementation and finalise the rules of arbitration and procedure. The agreement on these issues was included in the Aide Memoire.

Increasing sawnwood availability in the domestic market will help eliminate illegally cut timber

In another development, the Wood Workers Association of Ghana (WWAG) has appealed to government to find ways to increase the supply of sawnwood to the local market to satisfy demand and make it unnecessary for consumers to have to turn to illegally processed sawnwood.

Ghana has developed policy that seeks to improve the supply of legal timber demand by the domestic market. Under the policy, sawmills are required to supply at least 40% of their production to the domestic market but even with the new policy domestic demand cannot be satisfied.

Providing competitive financing for small and medium sized companies

In a recent press release the African Development Bank (AfDB) reported approval of a US\$ 20 million line of credit for UT Bank Ghana to support the commercial activities of Small and Medium Enterprises (SMEs) and local corporations.

As the Ghanaian economy continues to grow and diversify, there is increasing need to address unsatisfied demand for competitive financing for small and medium sized companies in key economic sectors such as agriculture and light manufacturing.

This new facility aims to support financial sector development, enhance regional integration through intra-African trade and contribute to government revenue generation.

The financing being made available is expected to facilitate trade in essential raw materials, intermediate and finished goods, and equipment worth around US\$ 140 million.

See: <http://www.afdb.org/en/news-and-events/article/afdb-approves-a-usd-20-million-trade-finance-line-of-credit-for-ut-bank-ghana-to-support-smes-and-local-corporates-11813/>

Positive medium term growth forecast for Ghana

The African Development Bank (AfDB) has just released its African Economic Outlook (AEO) (May 27, 2013) which says Ghana's economy is expected to grow a further 8% by end of 2013. The AfDB report also forecast an 8.7% growth of the Ghanaian economy in 2014.

Ghana's medium term growth outlook remains positive due largely to investments in extractives sector industries, public infrastructure and commercial agriculture.

Ghana's GDP growth slowed from 14.4% in 2011 to 7.1% in 2012. However, the report notes that a 7.1% growth, when the world economies were in serious trouble, was encouraging despite lower cocoa and oil production during the year.

The AfDB Outlook maintained a focus on the high level of unemployment and urged the government of Ghana to create the right investment environment to stimulate growth in labour intensive industries.

See:

<http://www.afdb.org/en/knowledge/publications/african-economic-outlook/>

Boule Export prices

	Euro per m ³
Black Ofram	220
Black Ofram Kiln dry	313
Niangon	500↓
Niangon Kiln dry	565

Domestic Log Prices

Ghana logs	US\$ per m ³	
	Up to 80cm	80cm+
Wawa	150-160	163-180
Odum Grade A	169-174	178-188
Ceiba	110-125	130-145
Chenchen	94-105	109-123
Khaya/Mahogany (Veneer Qual.)	112-123	126-145
Sapele Grade A	146-155	161-185
Makore (Veneer Qual.) Grade A	132-138	140-166
Ofram	107-115	126-135

Export Sawnwood Prices

Ghana Sawnwood, FOB	€ per m ³	
	Air-dried	Kiln-dried
FAS 25-100mm x 150mm up x 2.4m up		
Afrormosia	855	945
Asanfina	480↓	544
Ceiba	210	255
Dahoma	322↑	395
Edinam (mixed redwood)	370↓	450
Emeri	355↑	450
African mahogany (Ivorensis)	582	638
Makore	558↓	620
Niangon	513↓	600
Odum	611↑	715
Sapele	559↑	648
Wawa 1C & Select	269	319

Export Rotary Veneer Prices

Rotary Veneer 1-2mm , FOB	€ per m ³	
	CORE (1-1.9 mm)	FACE (2mm)
Ceiba	293↓	339↓
Chenchen	320	356↑
Ogea	322↑	354↑
Essa	326↑	355↑
Ofram	320	357↑

Export Sliced Veneer Prices

Sliced Veneer, FOB	€ per sq. m	
	Face	Backing
Afrormosia	1.32↑	1.04
Asanfina	1.45	0.91↑
Avodire	1.22↑	0.72↑
Chenchen	0.81↑	0.50
Mahogany	1.30	0.80
Makore	1.32↑	0.70
Odum	1.88	1.00

Export Plywood Prices

Plywood, FOB	€ per m ³		
	Ceiba	Ofram	Asanfina
BB/CC			
4mm	427↓	600	648↑
6mm	420	610↓	622
9mm	360	438	475
12mm	361	430	439
15mm	317↑	378	368
18mm	305	363	364↑

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	12.60	15.00↓	18.33↑
Odum	9.00↑	11.20↓	12.40↑
Hyedua	14.08	14.00	18.45
Afrormosia	14.30	18.65↑	18.33↑

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

Report from Malaysia

Export demand remains subdued

Analysts report that demand in the main export markets remains weak but that there are signs of increased buyer interest in Europe and that, after a quiet spell, Indian buyers have become more active.

First quarter furniture export performance set to be one of the worst in recent years

The Malaysian Furniture Entrepreneurs Association (MFEA) has said Malaysian furniture exports fell in the first quarter of this year.

The Star newspaper reported the association president Lor Lean Seng saying the first quarter performance is one of the worst for the furniture industry in recent years.

According to a Malaysian External Trade Corporation report, furniture exports for January and February 2013 amounted to RM1.088 billion (approx. US\$357 million) representing a 9.3% decline from the same period last year.

Exports to the US were worth RM323 million (approx. US\$106 million), down 5% compared to the same period in 2012.

Exports to other major buyers of Malaysian furniture such as Japan, Australia and United Kingdom also fell in the first two months of 2013.

Japan imported RM119.9 million (approx. US\$ 39 million), down 13.7% over the same period last year while Australia imported 7% less at RM72.9 million (approx. US\$24 million).

Malaysian furniture exports to the UK fell by a massive 23% in the first two months of the year to RM55.2 million (approx. US\$ 18 million).

The MFEA president said the level of orders reported during the second quarter are not encouraging so export sales are expected to continue to be on the low side.

Depressing news on furniture sales in the domestic market, where first quarter business was down 20-30%, is adding to the pessimistic outlook for the furniture industry

Malaysian furniture exporters not suffering alone

The president of the MFEA has said furniture exporters in China and Vietnam are also experiencing difficult times, although Vietnam's furniture exporters have an advantage as the dong has not appreciated as much as in other furniture exporting countries in the region.

The appreciation of the Malaysian ringgit against major currencies has contributed to the decline in exports.

Peninsular Malaysian exports steady in first two months

Exports of other products by manufacturers located in Peninsular Malaysia for the period Jan – Feb 2013 were a little more encouraging.

Plywood exports were worth RM839 million (approx. US\$ 275 million); sawnwood exports were worth RM358.7 million (approx. US\$ 118 million), and moulding exports were worth RM125.7 million (approx. US\$41 million).

Timber industry vital for continued socio-economic growth in Sarawak

The Borneo Post has reported Awang Tengah Ali, the state minister of Resource Planning and Environment, saying the timber industry in Sarawak plays a vital role in contributing to socio-economic growth in the state.

Awang Tengah said the Sarawak timber industry brought in RM7.455 billion (approx. US\$ 2.44 billion) to the state in 2012 compared to RM7.085 billion (approx. US\$ 2.32 billion) in 2011. This 5.2% growth was due to strong demand in markets in the Middle East, South Korea, Singapore, India and Philippines.

Sarawak timber exports for the first quarter this year totalled RM1.85 billion (approx. US\$ 607 million) a drop of 3.2% compared to last year.

The decline was due to an overall decline in demand except in the case of plywood for which exports increased by 5.4% in the first quarter to RM1.057 billion (approx. US\$347 million).

In terms of volume, plywood, which account for 40% of all timber exports by the state, increased by 14% to 734,162 cu.m.

Sabah reports healthy but not exciting first quarter export performance

The Statistics Department of Sabah released export data for the first quarter of 2013 showing that sawnwood exports, at 59,486 cu.m, were worth RM87.2 million (approx. US\$28.6 million). Thailand was the biggest buyer of sawnwood (26%) followed by South Africa (11.9%), Taiwan (11.6%), China (11.4%), and Japan (9.0%).

Sabah's exports of plywood for the first quarter totalled 165,205 cu.m valued at RM 248.6 million (approx. US\$81.5 million).

Japan was the main buyer of plywood from Sabah taking an 18% share followed by Peninsular Malaysia (16%), North Korea (14.6%), Egypt (12.2%) and USA (8.1%). Veneer exports (8,449 cu.m) from Sabah totalled RM11.8 million (approx. US\$3.9 million) while exports of mouldings totalled RM14.8 million (approx. US\$ 4.8 million). Exports of laminated boards earned RM 18.8 million (approx. US\$6.1 million).

Report from Indonesia

Opening new markets the key to boosting exports

Gusmardi Bustami, Director General of the national export development division of the Ministry of Trade has said that Indonesian exports are expected to be higher than last year because of growth in recently developed new markets.

The ministry official said Indonesian exports could reach US\$194-195 billion in 2013 compared to the US\$190 billion recorded in 2012. The ministry is forecasting that exports to non-traditional markets will increase by around 15% and could earn as much as US\$28 billion.

Indonesian exporters have had success in developing markets in Africa, Latin America and Central Asian countries and efforts are underway to promote exports in South Africa, Tanzania, Kenya, Nigeria, Madagascar, and Mozambique.

Until the VPA is ratified Indonesian exports to EU must be accompanied by evidence of legality

Until the Indonesia and the EU ratify the recently concluded Voluntary Partnership Agreement, Indonesian wood products entering EU member states must meet the due diligence requirements of the EU Timber Regulation said Multi-stakeholder Forestry Program co-director Andy Roby.

Mr. Roby said that, even though Indonesian wood products have been certified under the national Timber Legality Verification System Certificate (SVLK), Indonesian exporters still have to provide information on the legality of the wood products when they are shipped to the EU.

Mr. Roby said only after Indonesia and the EU ratify the Forestry Law Enforcement, Governance and Trade-Voluntary Partnership Agreement (FLEGT-VPA) will the EU recognize Indonesia's SVLK certification as the basis for the issuance of a FLEGT license.

Exporters of FLEGT licensed wood products will not be required to provide any further evidence to support the legality of their products.

Ministry of Forestry enlists support to stamp out corruption

The Ministry of Forestry (MoF) recently concluded an agreement with the Corruption Eradication Commission (KPK) to extend efforts to eliminate corruption in the forestry sector.

The Minister of Forestry, Zulkifli Hasan said "This effort has been made to improve the ministry's administration and that the corrupt 'selling' of concession permits will not be tolerated"

The Secretary-General of MoF, Hadi Daryanto, said further efforts are necessary as there have been claims that mining and plantation companies are still involved in corrupt practices.

A recent report has estimated that losses in state revenues from corrupt practices in the sector were around US\$9 million in 2011.

The report identified three patterns of violations in the forestry sector: operations in protected forests or operations without a concession agreement from the MoF, undertaking forest-clearance without permission and illegal logging.

The MoF has said it is overwhelmed with complaints of corruption so needs the assistance of the KPK to combat corruption complaints.

Plans for forest clearance in Aceh results in public outcry

The Jakarta Post has reported that more than a million people signed a petition calling for President Susilo Bambang Yudhoyono to block the Aceh administration's plan to open protected forests for commercial exploitation.

The petition was begun after changes were proposed to the Aceh planning bylaw which, say activists, would put the province's 1.2 million protected forests at risk from clearing.

The Coalition of Aceh Rainforest Movements, an NGO, has claimed that the new planning rules could provide for the conversion of a huge part of the 3.5 million hectares of protected forests in Aceh.

However, the Minister of Forestry has said his ministry has only approved the conversion of 80,000 hectares of forests so that the infrastructure in the province can be upgraded.

Domestic Log Prices

Indonesia logs, domestic prices	US\$ per m ³
Plywood logs	
core logs	188-234↑
Sawlogs (Meranti)	200-250↑
Falcata logs	130-222↑
Rubberwood	80-120↑
Pine	120-170↑
Mahoni (plantation mahogany)	148-224↓

Domestic Ex-mill Sawnwood Prices

Indonesia, construction material, domestic	US\$ per m ³
Kampar (Ex-mill)	
AD 3x12-15x400cm	460-580↓
KD	-
AD 3x20x400cm	540-690↓
KD	-
Keruing (Ex-mill)	
AD 3x12-15x400cm	420-510
AD 2x20x400cm	510-610
AD 3x30x400cm	440-490↓

Export Plywood Prices

Indonesia ply MR BB/CC, export FOB	US\$ per m ³
2.7mm	570-660↑
3mm	520-640↑
6mm	380-530↓

Domestic Plywood Prices

MR Plywood (Jakarta), domestic	US\$ per m ³
9mm	390-440↑
12mm	390-430↑
15mm	300-330↑

Export and Domestic Other Panel Prices

Indonesia, Other Panels, FOB	US\$ per m ³
<i>Particleboard</i>	
Export 9-18mm	320-580
Domestic 9mm	350-680↑
12-15mm	370-680↑
18mm	300-450↑
<i>MDF</i>	
Export 12-18mm	430-700↑
Domestic 12-18mm	380-650

Export Added Value Product Prices

Indonesia, Mouldings, FOB	US\$ per m ³
Laminated Boards	
Falcata wood	370-450
Red Meranti Mouldings 11x68/92mm x 7ft up	
Grade A	520-550
Grade B	478-500

CIFOR spots rare leopard only 100 km from Jakarta

Researchers from CIFOR have reported sightings of one of the world's most endangered big cats, the Java leopard (*Panthera pardus melas*) less than 100 km from Jakarta.

The video footage and photographs released by the CIFOR research project in Gunung Halimun-Salak National Park show a leopard relaxing in dense forest.

See: <http://news.mongabay.com/2013/0521-hance-javan-leopard.html>

Report from Myanmar

High log stocks in importing countries

Until this month teak sales were brisk but now some dealers are saying that, because many buyers have accumulated high levels of stocks, the market for teak logs is now rather quiet.

Analysts say that buyers in India and Thailand are overstocked with teak logs and that companies in China can get a steady supply of teak overland and are not keen to purchase teak logs brought in by sea because of the addition of shipping freight costs lower profit margins.

During the second half of May teak log shipment were slow and vessels were waiting for cargo. Analysts say to slow market is partly because buyers had over extended purchases to increase stocks and that this had created a financial strain for them.

Analysts do not expect the current situation to persist because buyers are confident that stocking teak, unlike stocking less durable species, poses little risk since teak is very durable and can be held in stock for a long time.

Buyers are anticipating that the value of their teak log stocks will increase after the log export ban is introduced in April next year.

Timber exports to the EU and the US

The May 17 issue of the domestic newspaper Daily Eleven News reported that, according to Barber Cho of the Myanmar Timber Merchants Association (MTMA), Myanmar may be able to start shipping timber that conforms to the EU timber regulations from 2015.

In the interim the MTMA will publish guidelines to help standardise export documentation and enable exporters to provide the necessary paperwork required by importers in the EU and the US to verify the legality of timber exports.

The MTMA will publish a document 'The Official Compilation of the Export Documentation in Compliance with the National Rule and Regulation of the Timber Trade in Myanmar'.

Procedures for clearing export containers to be streamlined

It has been reported that the procedures for checking export containers of wood products will be streamlined.

At present every container of wood products is inspected twice, once by the Forest Department when stuffing is complete and again by Customs officials prior to the loading of the container onto a vessel at the container terminal.

Exporters have frequently complained that this double check is unnecessary. News that the Customs inspection at the container terminal will be eliminated starting June 1, 2013 has been welcomed by the industry.

Under the new system a container inspected and sealed by the Forest Department and will be cleared for shipping after passing through scanners at the container terminal. These changes will eliminate delays and expedite shipments.

Myanmar's GDP expected to grow

Myanmar's economy expanded 6.5% last year and is set for further modest growth of 6.75% this year driven mainly by production and sales of natural gas according to the IMF. The IMF also expects increases in foreign investment to help narrow the widening current account deficit.

End May teak auction prices

The following prices were reported from competitive bidding for teak logs on 23rd and 27th May at the most recent Myanmar Timber Enterprise tender.

Grade	Quantity (Tons)	US\$ per hoppus ton
4th Quality	10	6603
SG-1	20	4876
SG-2	21	4415
SG-4	450	3455
SG-5	222	2445
SG-6	100	2087
SG-7	182	1927

Hoppus ton=1.8m³; All grades, except SG-3/5/6, are length 8' x girth 5' & up. SG-3/4/6 are girth 4' & up. SG-3 grade is higher than SG-4 but with lower girth and price. Prices vary due to quality and/or girth at the time of the transaction.

Report from India

Industrial output growth points to 'green' shoots in economy

India's industrial output climbed 2.5 per cent in March, the fastest pace of expansion in five months. Rising output has raised hopes that the worst of the decline in the economy may be over and the slowdown may have bottomed out.

Official data released in mid May show that March industrial output growth was up from the 0.5 per cent increase in February however, analysts suggest interest rates need to be further eased to stimulate industrial activity.

The Reserve Bank of India has so far this year cut interest rates by 0.75 percent in three steps to help revive the economy.

Inflation eases to a 41 month low

Inflation, based on the Wholesale Price Index, eased to 4.89 percent in April, down from the 5.96% in March and 7.5% in April 2012. This is the lowest level of inflation since November 2009 when it was 4.78%. The outlook is that inflation will remain at 'comfortable' levels for next few months.

Exports continue to positive trend

India's exports, battered by weak international demand for most of last year, grew by 1.6 per cent in April, the fourth successive monthly growth.

April export figures stood at US\$24.16 billion against US\$23.70 billion in the same month last year. However, as the economy shows signs of improvement imports of gold have increased and oil imports continue to drive the trade deficit higher.

With an improvement in the US economy and a rise in exports to new markets such as Latin America, Africa and CIS countries, the Commerce Ministry has set an export target of US\$325 billion for 2013-14 which is about 8 percent higher than US\$300.60 billion in 2012-13.

Mangroves along 720 Km coastline in Maharashtra now protected

The Government of Maharashtra has transferred the responsibility for the protection of mangroves to a specially constituted unit including the Asst. Conservator of Forests, Divisional Forest Officers, Forest Rangers and Forest guards and other stakeholders.

This unit will manage and protect the 18,600 hectares of vulnerable mangrove forests along the state's 720 km. coastline.

The mangrove forests have been re-designated as Protected Forests by a High Court order and all development within the newly protected forest is forbidden.

Mangrove habitats act as a buffer zone between land and sea protecting the coast during tsunamis, cyclones and flash floods and also help protecting coastal erosion.

Expanded farm forestry a win - win for farmers and woodbased panel makers

The wood based panel and paper industries in India have been making progress in developing dependable and sustainable sources of raw material for their factories.

Andhra Pradesh Paper Mills Ltd has recently celebrated the planting of the one billionth tree in their farm forestry initiative.

Similar initiatives on resource establishment have been taken by other paper companies through successfully convincing farmers to plant superior clones of eucalyptus

and casuarinas on marginal, degraded and unutilized land. These initiatives are a win - win situation for the farmers and the industries.

Similar initiatives have been taken by panel industries in northern India which has encouraged expansion of plantations of poplar and eucalyptus to meet their requirements for veneer.

However, panel production has expanded so fast that it is outstripping raw material supplies. Because of the firm demand log prices for panel and pulp manufactures have increased sharply.

Several panel manufacturers using agri-residues as raw material are also facing shortages and this is putting expansion plans in jeopardy. Panel demand has grown by over 25% in recent years but the supply of raw material, mainly baggase, cannot keep pace.

Baggase raw materials were once priced at around Rs.1000 per ton but now cost as much as Rs.3000 per ton, all within the span of just two years. Unfortunately, consumers are not willing to pay higher prices for the finished products to off-set rising raw material, chemicals and energy costs.

In addition the industry is facing growing competition , from cheaper imported alternatives. Government intervention through levying anti-dumping duties and increased import tariffs on imports of fibreboard, for example, has not had any significant effect.

Imported plantation teak prices (C&F)

Import shipments of plantation teak have increase by around 5% recently so there have been some changes in prices however, generally prices are steady.

	US\$ per m3
Tanzania teak, sawn	350-700
Côte d'Ivoire logs	450-850
PNG logs	450-550
El-Salvador logs	300-450
Guatemala logs	400-500
Nigeria squares	300-500
Ghana logs	300-650
Guyana logs	300-450
Benin logs	350-700
Benin sawn	700-800
Brazil squares	350-600
Colombia logs	350-600
Togo logs	350-500
Ecuador squares	280-450
Costa Rica logs	350-550
Panama logs	350-550
Sudan logs	400-800

Variations are based on quality, lengths of logs and the average girth of the logs.

Ex-sawmill prices for imported hardwoods

Domestic prices for air dried sawnwood per cubic foot, ex-sawmill remain unchanged and are shown below.

Sawnwood, (Ex-mill) (AD)	Rs. per ft ³
Merbau	1600-1650
Balau	1800-1900
Kapur	1100-1250
Red Meranti	850-900
Radiata Pine (AD)	
Whitewood	550-600
	550-575

Prices for Myanmar Teak processed in India

Despite higher import costs teak prices remain fairly stable. This is because teak stocks are adequate as importers had steadily accumulated stocks when prices were favorable and because there is intense price competition in the Indian teak market. Some price increases are beginning to be reported and current prices are shown below.

Sawnwood (Ex-mill)	Rs. per ft ³
Myanmar Teak (AD)	
Export Grade F.E.Q.	4500-10500
Plantation Teak A grade	3850-4250
Plantation Teak B grade	2800-3200
Plantation Teak FAS grade	2200-2800

The price range is the result of variations in length and cross section.

Prices for imported KD 12% sawn wood

The use of imported KD sawnwood is steadily increasing but at the moment prices remain unchanged as supplies are adequate and there is strong competition in the domestic market.

Sawnwood, (Ex-warehouse) (KD)	Rs per ft ³
Beech	1200-1250
Sycamore	1200-1300
Red oak	1500-1650
White Oak	1600-1800
American Walnut	2300-2400
Hemlock clear grade	1100-1300
Hemlock AB grade	950-1000
Western Red Cedar	1550-1600
Douglas Fir	1200-1200

Can engineered woodbased panels capture greater market share?

The total demand for woodbased panels in India is estimated at around 20 million cubic metres out of which plywood accounts for an 80~85 percent share.

Engineered panels such as particleboard and MDF have not been able to capture a significant share of the market to change the pattern of consumption as has happened in other countries.

To expand consumption of engineered panels it is necessary for producers in Indian to improve the overall quality of their products as end-users such as carpenter complain about the mechanical properties and water resistance of domestically manufactured panels. Only when quality improves will engineered panel makers be able to capture a greater market share.

Plywood market prices

Prices remain unchanged as follows:

WBP Marine grade from domestic mills

Plywood, Ex-warehouse, (MR Quality)	Rs. per sq.ft
4 mm	30.00
6 mm	44.00
12 mm	67.00
15 mm	79.00
18 mm	95.00

Domestic ex-warehouse prices for locally manufactured MR plywood

Locally Manufactured Plywood "Commercial Grade"	Rs. per sq.ft
	Rubberwood Hardwood
4mm	Rs.14.50 Rs.23.00
6mm	Rs.21.75 Rs.31.50
8mm	Rs.27.25 Rs.35.50
12mm	Rs.32.75 Rs.41.50
19mm	RS.46.00 Rs.56.50
5mm Flexible ply	Rs.31.50

Report from Brazil

First interest rate hike since July 2011

Brazil's Consumer Price Index (IPCA) in April was marginally above the rate of 0.47% recorded in March. The accumulated change so far this year is 2.50%, significantly up on the 1.87% for the same period in 2012.

In March the average exchange rate of the real to the US dollar was BRL 2.00/US\$ compared to BRL1.85/US\$ in March 2012, signalling a slight depreciation of the Brazilian currency.

For the first time since July 2011 the Monetary Policy Committee (Copom) of the Brazilian Central Bank (CB) raised the prime interest rate (Selic) by 0.25 percent bringing the basic interest rate to an annualized 7.5% per year.

Low cost chip technology for logging operations

The State Secretariat for the Environment (SEMA) has introduced a new control mechanism called the "System for Commercialization and Transport of Forest Products", (SISFLORA 2). The aim is to improve the process of monitoring and control of production and transport of forest products.

The new system provides the means for greater control to combat environmental degradation and is based on information chips attached to the base of trees that will be felled as well as logs that are harvested.

This allows for better digital control of logging activities so that SEMA will be in a position to monitor log movements through designated chip codes.

SISFLORA 2 has been introduced to meet international market requirements for evidence that logs have been

legally sourced and to prevent illegally harvested timber entering the supply chain.

The cost of the chip is almost negligible and a good investment considering that it will provide the means to certify the legality of logs and wood products. The major cost centre for enterprises will be management costs from implementation.

In 2012, SEMA authorized harvesting of 3 million cubic metres of wood. Until the end of May this year harvesting of some 6-700,000 cubic metres had been authorized a rate which, if it continues, will result in higher harvests in 2013.

SEMA is discussing the possibility of implementing an improved tracking system in the first half of 2014. This will provide for better traceability of forest products commercialised in the state.

New standards for concession audits in State of Amapá

Discussions have been held between the private sector and local governmental agencies in the State of Amapá as well as representatives from other states on standards for forest concession allocation in Amapá.

The objective was to establish new rules for concession bidding involving the State Forestry Institute (IEF) and the State Secretariat of Environment (SEMA).

It is recognised that forest concession allocations generate direct social benefits such as creation of jobs, investment in infrastructure and services to the local community and they add value to a resource and services derived from natural forests.

The aim of the authorities in Amapá is to minimise the risk of illegal activities through regular control and audits.

The initial estimate is that the first concession bidding process will generate around R\$ 30 million in terms of civil construction, shipbuilding and manufacturing and this will generate a revenue of around R\$ 5 million for the state. It is planned that the first concession bidding process will begin before the end of the year.

The representatives of the Brazilian Forest Service, the Brazilian Agricultural Research Corporation of Amapá, the Secretariat of Rural Development, Social Inclusion and Mobilization, the State Secretariat for the Environment, and the Ministry of Industry, Commerce and Mining, and the Union of Timber Workers of Amapá (Sindmadeira) and community representatives attended the meeting at which the new proposals were discussed.

Pine sawnwood exports post sharp gains

In April 2013, the value of wood product exports (except pulp and paper) increased 13.6% compared to values in April 2012, from US\$191.4 million to US\$217.4 million.

Pine sawnwood exports fell 12.5% in value in April 2013 compared to April 2012, from US\$16.0 million to US\$14.0 million. In volume terms exports dropped 11.9%, from 73,100 cu.m to 64,400 cu.m over the same period.

Tropical sawnwood exports also fell dropping 8.7% in volume, from 28,700 cu.m in April 2012 to 26,200 cu.m in April 2013. The value of tropical sawnwood exports also declined 8.5% from US\$15.3 million to US\$14.0 million in the same period.

Pine plywood exports increased substantially (+20.9%) in value in April 2013 compared to April 2012, from US\$30.1 million to US\$36.4 million. The volume of exports also rose 24.9% from 76,800 cu.m to 95,900 cu.m during the same period.

April 2013 tropical plywood export volumes remained the same as in April 2012 at 4,100 cu.m.

Exports of Brazilian made wooden furniture rose from US\$35.6 million in April 2012 to US\$39.2 million in April 2013, a 10.1% increase.

Project 'Orchestra Brazil' delivers firm results for furniture exporters

Between January and March 2013, companies participating in the project "Brazil Orchestra", a partnership between the Union of Furniture Companies of Bento Gonçalves (Sindmóveis) and the Brazilian Trade and Investment Promotion Agency Apex-Brazil, recorded a 10.3% increase in exports over the same period last year.

However, Brazilian exports of accessories, components, chemicals, technology and design services for the furniture industry dropped 8.3% in the first quarter and overall Brazilian exports fell 7.7% which signals the success of the 'Brazil Orchestra' initiative.

According to Sindmóveis, the good export performance of companies participating in the 'Brazil Orchestra' is the result of joint efforts and strong support of Apex-Brazil.

Currently, more than 100 companies participate in the project. The target markets in 2013 are Argentina, Colombia, the United States, Mexico, Paraguay, Peru and Uruguay. In all these countries growth in sales was reported in the first quarter of the year except in Mexico (-18%). In the United States, the main export market, exports increased 34%.

After a long period of falling exports to Argentina demand has increased and was up 8.9% in the first quarter. In addition, purchases by importers in Colombia and Peru from 'Brazil Orchestra' participating companies increased 17% and 100.8%, respectively. Furthermore, demand from Chile (+9.8%), Paraguay (+3.1%) and Uruguay (+9.6%) provided significant growth.

Mato Grosso timber exports hampered by poor road conditions

The revenue generated from forest product exports by companies in Mato Grosso state dropped 16.4% in the first quarter, compared to the same period of last year.

According to the Ministry of Development, Industry and Foreign Trade (MDIC) from January to March 2013, trade amounted to US\$22.5 million against US\$26.9 million in the same period last year.

Export volumes in the first three months of 2013 reached 28,127 tonnes, 5.33% above levels in the same period last year (26,702 tonnes).

Exports of sawnwood accounted for the largest shipments totaling 14,235 tonnes, sufficient to generate US\$9.5 million. Compared to 2012, there was a decline of 7.8% in the volume exported and a 16.8% drop in revenue.

According to analysts, exports by the timber sector this year were hampered by bad road conditions especially in the north of Mato Grosso. From December 2012 to April 2013 export totaled US\$80,000 but this figure should have been in the region of US\$ 4-500,000. China is the main export destination for current production.

Domestic Log Prices

	US\$ per m ³
Brazilian logs, mill yard, domestic	
Ipê	169
Jatoba	117
Guariuba	91
Mescla (white virola)	96

Export Sawnwood Prices

	US\$ per m ³
Sawnwood, Belem/Paranagua Ports, FOB	
Jatoba Green (dressed)	1324
Cambara KD	729
Asian Market (green)	
Guariuba	363
Angelim pedra	850
Mandioqueira	302
Pine (AD)	220

Domestic Sawnwood Prices

	US\$ per m ³
Brazil sawnwood, domestic (Green)	
Northern Mills (ex-mill) Ipé	927
Jatoba	643
Southern Mills (ex-mill) Eucalyptus (AD)	254
Pine (KD) 1st grade	237

Export Veneer Prices

	US\$ per m ³
Veneer, Export (Belem/Paranagua Ports) FOB	
White Virola Face 2.5mm	341
Pine Veneer (C/D)	240

Domestic Veneer Prices

	US\$ per m ³	
Rotary cut Veneer, domestic		
(ex-mill Northern Mill)	Face	Core
White Virola	278	228

Export Plywood Prices

	US\$ per m ³
Plywood, FOB	
White Virola (US Market)	
5.2mm OV2 (MR)	498
15mm BB/CC (MR)	448
White Virola (Caribbean market)	
4mm BB/CC (MR)	635
12mm BB/CC (MR)	463

Pine Plywood EU market, FOB	US\$ per m ³
9mm C/CC (WBP)	367
15mm C/CC (WBP)	339
18mm C/CC (WBP)	337

Domestic Plywood Prices

Plywood, domestic (ex-mill Southern mill)	US\$ per m ³
Grade MR (B/BB) White Virola 4mm	806
White Virola 15mm	593

Domestic prices include taxes and may be subject to discounts.

Prices For Other Panel Products

Belem/Paranagua Ports, FOB	US\$ per m ³
Blockboard Pine 18mm 5 ply (B/C)	417
<i>Domestic Prices, Ex-mill Southern Region</i>	
Blockboard White Virola faced 15mm	581
Particleboard 15mm	369

Export Prices For Added Value Products

FOB Belem/Paranagua Ports	US\$ per m ³
Decking Boards	
Cambara	984
Ipê	2,664

Report from Peru

Deforestation, the result of planned agriculture and illegal intrusions

Gustavo Suarez de Freitas, a forestry expert has reported that most of the deforestation in the country is the result of a deliberate change in land use from forest to agriculture.

He has also reported that most of the forest clearance is of small plots of less than half a hectare for small-scale agriculture and that most of the clearance is undertaken by immigrants moving into forested areas.

Following on from this assertion de Freitas lamented the failure to better utilise the extensive forest wealth of the country to alleviate poverty as well as for economic development.

Adex appeals for re-launch of concession allocations

The Exporters Association (Adex) has called on authorities to re-launch the Amazon forest concession strategy to provide for expanded development of the wood processing sector and increased exports. Adex recalled that in 2012 wood product exports declined.

The chairman of the Timber and Wood Industry section of Adex, Erik Fischer, has said that this request stems from the desire of companies to continue investing in the sector to improve competitiveness and implement sustainable projects that have a positive social and environmental impact.

Without a clear direction and a stable policy framework investors are reluctant to implement long term plans which will consolidated the benefits from a viable forestry sector in terms of social inclusiveness, wealth creation and environmental sustainability.

US\$7.7 million for forestry development

The Agricultural Bank (Agrobanco) plans to offer US\$7.7 million to finance forestry activities in Madre de Dios, Huanuco, Loreto and Ucayali.

These funds will be allocated to projects for forest rehabilitation and for forest industry development in areas dominated by the informal timber sector and where forest degradation from illegal logging is a serious problem.

Agrobanco is the only financial institution in the country to offer a line of credit for the forest sector.

The bank will consider projects initiatives that promote reforestation with native species, conservation of forests and wildlife and job creation in addition to wood product industry development.

To date, the Agrobanco has disbursed loans totalling US\$2.7 million to companies engaged in sawmilling, trading, mining and added value timber industries.

Some of these funds have been used by entrepreneurs and small scale timber producers to purchase machinery and equipment that allows them to fully comply with the recommendations and requirements of the Forest and Wildlife Act.

The bank also promotes training activities in partnership with public and private agencies.

New entrepreneurs are offered training in organizational management, market access and business management. Business management workshops were managed by timber specialists from ESAN University and the Ministry of Agriculture.

A spokesperson from Agrobanco said the timber sector in Peru has potential because of the high value commercial species that are available but this potential can only be released through a process of rational use within the framework of national and international standards.

The key to releasing the potential of the forestry and wood processing sectors says Agrobanco is private sector participation in promoting sustainable forestry development, protection of wildlife and industrial development.

Export Sawwood Prices

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

Peru Sawwood, FOB Callao Port (cont.)	US\$ per m ³
Virola 1-2" thick, length 6'-12' KD	
Grade 1, Mexican market	428-487
Grade 2, Mexican market	358-404
Cumaru 4" thick, 6'-11' length KD	
Central American market	834-849
Asian market	811-893+
Ishpingo (oak) 2" thick, 6'-8' length	
Spanish market	509-549
Dominican Republic	572-589
Marupa (simarouba) 1", 6-11 length Asian market	392-451

Peru Sawnwood, FOB Iquitos	US\$ per m ³
Spanish Cedar AD Select Mexican market	887-909
Virola 1-2" thick, length 6'-13' KD	
Grade 1, Mexican market	429-467
Grade 2, Mexican market	332-377
Grade 3, Mexican market	161-176
Marupa (simarouba) 1", 6-13 length KD	
Grade 1, Mexican market	314-341↑

Domestic Sawnwood Prices

Peru sawnwood, domestic	US\$ per m ³
Mahogany	867-911
Virola	92-134
Spanish Cedar	264-305
Marupa (simarouba)	83-99

Export Veneer Prices

Veneer FOB Callao port	US\$ per m ³
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 ³
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 ³
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 ³
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 ³
Cabreuva/estoraque KD12% S4S, Asian market	1287-1388
Cumaru KD, S4S Swedish market	866-981
Asian market	1332-1552
Cumaru decking, AD, S4S E4S, US market	1210-1298
Pumaquiro KD # 1, C&B, Mexican market	423-511
Quinilla KD, S4S 2x10x62cm, Asian market	493-519
2x13x75cm, Asian market	732-815

Report from Guyana

Asian buyers seeking newly commercialised timbers

During the period of review there were few log shipments and none of the major commercial species, greenheart and mora. Only purpleheart logs were exported and prices weakened slightly.

However, some of Guyana's newly commercialized species such as wamara (*Swartzia leiocalycina*) and

kabukalli (*Goupia glabra*) were sought after by buyers in Asian markets.

Sawnwood export earnings compensate for slack log exports

Sawnwood exports made a favourable contribution to export earnings. FOB prices for Undressed greenheart (select) climbed from US\$975 to US\$996 per cubic metre, while Undressed greenheart (merchantable) quality FOB prices only secured fair prices of US\$594 per cubic metre.

Undressed purpleheart FOB top end prices increased to US\$1,251 in comparison to levels in the previous fortnight which stood at US\$1,100 per cubic metre. On the other hand Undressed purpleheart (merchantable) FOB prices only held on to recent gains. There were no exports of Undressed mora sawnwood during the period reported.

Dressed greenheart top end FOB prices moved up from US\$1,166 to US\$1,187 per cubic metre during the period under review. On the other hand Dressed purpleheart top end price fell from US\$1,102 to US\$806 per cubic metre FOB for this period. Plywood FOB prices were maintained at US\$584 per cubic metre FOB.

Guyana's wamaradan is French Guiana's angelique

One of Guyana's newly commercialized species wamaradan (*Dicorynia paraensis*), known as tapaiuna in Brazil and angelique in French Guiana, was traded and made a favourable contribution to export earnings.

Wamaradan attracted prices as high as US\$1,060 per cubic metre FOB in the US market. This species can be used for building and construction as it is a very durable timber.

Also, Guyana's ipe (washiba) was traded at US\$2,550 per cubic metre FOB to buyers in North America.

FLEGT support programme launched

FAO, in collaboration with the EU and the Guyana Forestry Commission (GFC), launched a US\$65,000 Forest Law Enforcement Governance and Trade Programme (FLEGT) support programme which could enable timber traders to expand to new international markets.

The programme, which is being funded by the EU and implemented through the FAO, is intended to support an eight month project "Executing Initial Aspects of the Guyana Roadmap for the EU Forest Law Enforcement Governance and Trade Programme (FLEGT) Voluntary Partnership Agreement (VPA) through developing a Communication Strategy and scoping impact of an EU FLEGT VPA for Guyana".

GFC Commissioner, James Singh, said the negotiations for the programme concluded last December include plans for dissemination of information to stakeholders as well as the assessment of impacts which result from the implementation of the VPA.

FAO Country Representative Dr. Lystra Paul explained that the project is an important step in helping exporters meet new international requirements.

In 2003 the EU adopted FLEGT Action Plan to address the issue of illegal timber and prevent such timber entering the EU market. The United States and Australia also have new regulations affecting the trade.

Guyana's continued ability to sell to these markets will be determined by how well its stakeholders address the new market requirements. The FAO representative mentioned that two companies in Guyana are already able to satisfy the requirements of the EUTR.

FLEGT roadmap on track in Guyana

The VPA process in Guyana is proceeding according to the timelines stipulated in the 'Roadmap in Guyana'. A technical team from the European Forest Institute (EFI) visited Guyana with the aim of gaining a better understanding of the current legality systems within Guyana's forest sector.

The team was also given the opportunity to interact with the National Technical Working Group (NTWG) selected at a national workshop to lead the FLEGT process with the European Union. Representatives of indigenous Amerindian NGO's and other stakeholder groups were given the opportunity to interact with the team.

Launch of communication project

With funding from the EU and with technical support from FAO Guyana has initiated a project aimed at developing a communication strategy. The project will also design a scoping impact assessment of the EU FLEGT VPA in Guyana.

The recent launch of this project was attended by members of the NTWG, the Ministry of Natural Resources and the Environment, a representative of the EU and members of the Indigenous NGOs.

The FAO country representative reaffirmed FAO's commitment to this process and expressed their appreciation for the manner in which Guyana has executed FAO projects in the past.

Consultant terms of reference for various elements in the new project have been published and invitations extended to consultants.

Export Log Prices

Logs, FOB Georgetown	SQ - \$ Avg unit value per m ³		
	Std	Fair	Small
Greenheart*	-	-	-
Purpleheart	200	175	150
Mora	-	-	-

*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 Sawnwood Prices

Sawnwood, FOB Georgetown		\$ Avg unit val. per m ³	
EU and US markets		-Undressed	Dressed
Greenheart	Prime	-	-
	Standard	-	700-1,187
	Select	594-996	-
	Sound	-	-
	Merchantable	594	-
Purpleheart	Prime	-	-
	Standard	-	700-806
	Select	950-1,251	-
	Sound	-	-
	Merchantable	650	-
Mora	Prime	-	-
	Select	-	-
	Sound	-	-
	Merchantable	-	-

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

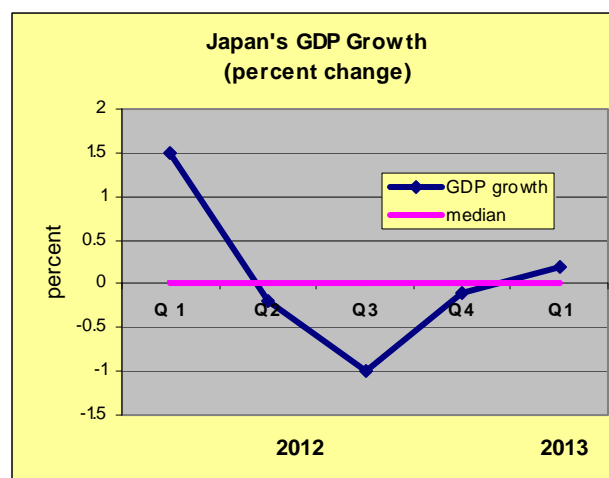
Export Plywood Prices

Plywood, FOB Georgetown Port			\$ Avg unit val. per m ³
Baromalli	BB/CC	5.5mm	-
		12mm	450-584
	Utility	5.5mm	no export
		12mm	"

Report from Japan

First quarter GDP beats analyst's expectations

Japan's economy grew at an annual rate of 3.5% in the first three months of 2013 according to the latest information from Japan's Cabinet Office.



On a quarterly basis GDP increased by 0.9% beating analysts expectations. Consumer spending and exports were particularly strong. Private consumption accounts around 60% of the economy.

The latest GDP data are seen as validating the government's economy policies and adding strength to the argument for a rise in consumption tax within a year.

Market volatility a threat to 'Abenomics'

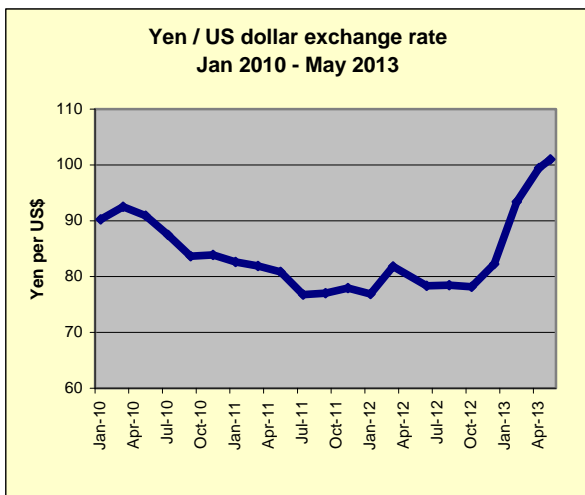
Japanese shares fell sharply recently marking the steepest decline since August 2011. The Topix (Tokyo Stock Price Index) lost 2.6% percent in a day and the Nikkei 225 (another stock index in Japan) dropped just over 3%.

The immediate effect of the share sell-off was a strengthening of the yen which gained around half a percent on the dollar.

Stock market volatility could undermine the campaign by the Japanese government and Central Bank to lift the Japanese economy out of its decade long state of deflation. Analysts are saying that Japanese policy makers need to keep up the momentum for change if there is to be a sustained growth following on after the success in the first quarter of this year.

Japan's Economy Minister was reported as saying the recent correction, while faster than expected, does not mean there is a fundamental change in the economic outlook.

The Bank of Japan has signaled it is in close communication with financial markets around the world and will increase its efforts to present investors with details of its long-term policy plans. The yen strengthened against all major currencies in mid May.



Economic Outlook report highlights optimism among manufacturers

The Japanese government has upgraded its assessment of the economy and according to the May Economic Outlook from the Cabinet Office there are signs of an improvement in exports and industrial output which, says the update, suggests the government's aggressive monetary policies are having the desired results.

The previous Economic Outlook in April said the economy was improving but was still showing signs of weakness in some areas but the latest report is more optimistic.

Increasing optimism among manufacturers was one positive sign says the report as exporters in the electric and precision machinery sectors are benefiting from the weak yen.

To temper the positive news the report notes that while there are positive indications of an improvement in the economy, some companies are not as optimistic as there

has been little growth in 'real' demand which, they say, could mean a sustained recovery is some way off.

The Cabinet Office says the economy will continue to recover as exports improve and as economic stimulus and monetary policy continue to lift sentiment. See <http://www5.cao.go.jp/keizai3/getsurei-e/index-e.html>

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>

Impact of depreciation of the yen

To stop long lasting deflation, the Abe regime and the Bank of Japan took monetary easing policy, which depreciates yen's exchange rate sharply in short time.

The yen was 78 yen to the dollar in last fall then it plunged to 102 yen, about 30% drop in six months. Also the yen depreciated to the Euro by about 25%.

Wood industry is facing inflation of imported wood materials by weakening yen.

Not only wood products but cost of other materials like adhesive for plywood and laminated lumber and fuel cost of transportation is climbing.

Housing market this year looks positive with coming hike of consumption tax and recovery of general economy as stock market is booming and corporate revenue is increasing particularly on export business but transferring of rising cost of materials is not fast enough as speed of depreciation is too fast.

The prices of European structural laminated lumber have been fixed the yen for the second quarter. Whitewood laminated post prices are 2,050 yen per piece delivered and redwood laminated beam prices are 62,000 yen per cbm so that there is no influence of exchange rate on those items until summer but the focus is climbing cost of European lamina, which pushes manufacturing cost of laminated lumber by domestic laminated lumber mills.

Prices of Canadian SPF dimension lumber (2x4-8) for the second quarter are about \$610 per MBM C&F, 37% higher than the same quarter last year. With exchange rate of 102 yen, it would cost about 46,000 yen while current market prices are about 45,000 yen per cbm FOB truck port yard.

Second quarter prices of Douglas fir baby square are about US\$510 per cbm C&F, which costs about 52,000 yen then May prices are about US\$550. With exchange rate of 102 yen, the cost would be over 60,000 yen. Current wholesale prices have gone up to 57,000 yen but further hike is necessary.

If the prices go up over 60,000 yen, there will be competition with domestic cypress square.

South Sea imported plywood export prices are about US\$550 per cbm C&F on JAS concrete forming panel. This costs about 1,220 yen per sheet but the market prices are

1,130-1,150 yen so another 100 yen price increase is necessary. Since log supply shortage in South East Asian countries is critical, export prices seem to go up more.

Domestic softwood plywood manufacturers' cost depends on how much imported materials mills use. Domestic cedar is becoming the main materials but some mills still use North American Douglas fir and Russian larch logs, which cost is higher by weak yen.

South Sea (tropical) log prices continue climbing

According to Sarawak Timber Association, log production in January and February was 16% less than the same months a year earlier. Current FOB export prices are \$300 on meranti regular, \$250 on meranti small and \$230-235 on super small.

Market log prices in Japan are about 9,400 yen per koku on meranti regular but June and July arrivals would cost about 10,700 yen, 14% higher than current prices and 40% higher than the prices in last fall.

North American log export prices have been escalating by active housing starts in the U.S.A. so that the lumber prices in Japan have been going up. Chugoku Lumber, the largest Douglas fir lumber manufacturer has raised the prices three times successively since last February but increase of export log prices and depreciation of the yen continue so that it has to increase the prices further.

With busy demand, buyers have to accept higher prices. Prices of DF dry beam have gone up to 54,000 yen per cbm delivered and of green beam to 42,000 yen.

Orders for dry beam Chugoku Lumber makes are brisk so that it has no extra production of high demanded baby squares.

Russian lumber prices were high even without exchange rate of weak yen. The suppliers' prices have been climbing by log shortage.

Russian made red pine taruki (30x40 mm) prices shot up to 63,000 yen per cbm FOB truck port yard and domestic mills' product prices are 68,000 yen delivered. They are about 10,000 yen higher compared to beginning of the year.

March plywood supply

Total supply of plywood in March was 549,300 cbms, 15.6% more than March last year and 10.0% more than February.

Total imported plywood arrivals in March were 317,900 cbms, 19.3% more and 11.9% more. Volume from Malaysia was 153,000 cbms, 53.0% more and 11.7% more.

That from Indonesia was 96,200 cbms, 5.5% more and 19.8% more.

Average monthly arrivals of imported plywood in last twelve months were 297,500 cbms so March arrivals exceeded average monthly volume.

In March, shipments by the largest Malaysian supplier increased and unloading at port of Yokohama delayed and several thousand cbms are carried over into April so that April arrivals would be over 300 M cbms. Then after April, import volume is estimated to drop sharply because of log shortage in producing regions and purchase curtailment by Japan.

Domestic plywood production in March was 231,400 cbms, 10.9% more and 7.6% more, out of which softwood plywood was 216,400 cbms, 14.1% more and 9.7% more. This is the largest monthly production since June 2007.

Shipment of softwood plywood was 218,900 cbms, 35.0% more and 6.8% more. This is six consecutive months that the shipment exceeded 200 M cbms. The inventories were 125,100 cbms, about 2,500 cbms less than a month ago.

South Sea (tropical) log supply

Weather in Sarawak, Malaysia is improving but imbalance of log supply and demand remains. Log supply should recover shortly but the demand is brisk. India is active in log purchase since late March so that export log prices continue climbing.

Sarawak meranti regular log supply is tight and FOB prices are as high as US\$300-305 per cbm on yellow meranti. Small meranti prices are over US\$250 and super small are about US\$230. They are all firm and strong.

Meanwhile, purchase by Japan is slow. Plywood mills in Japan try to avoid high log prices by skipping regular purchases. Or they are seeking other sources to buy logs if the prices continue going up. The importers have trouble because the suppliers' prices and Japanese buyers' idea prices are too far apart.

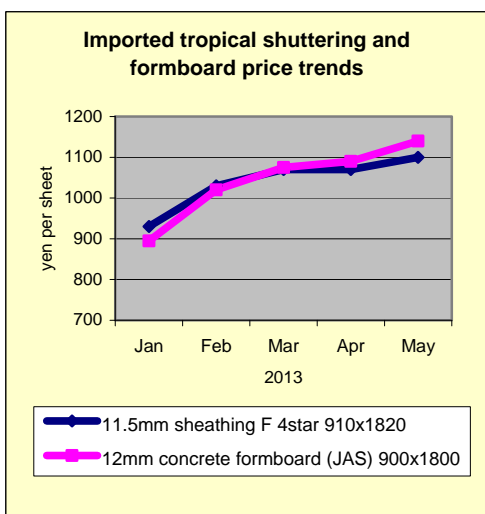
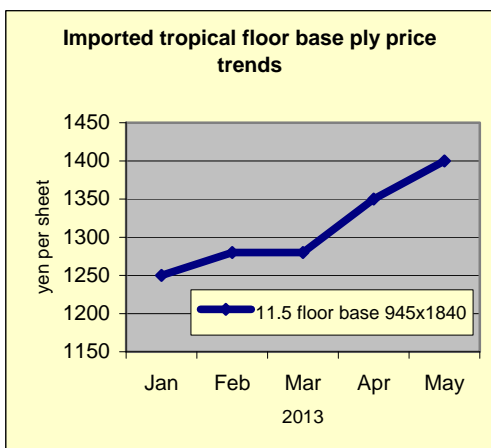
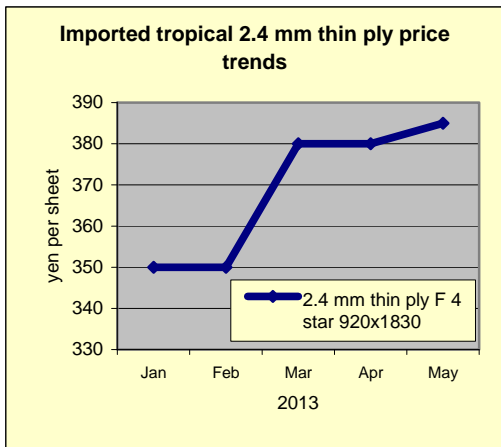
Weather in PNG is still in rainy season and heavy rain falls hamper log production. Meantime, China continues aggressively purchasing logs in PNG and many log ships for China are tied up in ports, waiting for logs.

There are busy inquiries in Sabah to replace Sarawak logs and some plywood mill is preparing to buy serayah logs in Sabah, which is often short in scale measurement.

Log prices in Japan are firming because of weak yen. Price negotiations between log importers and plywood mills are tough going.

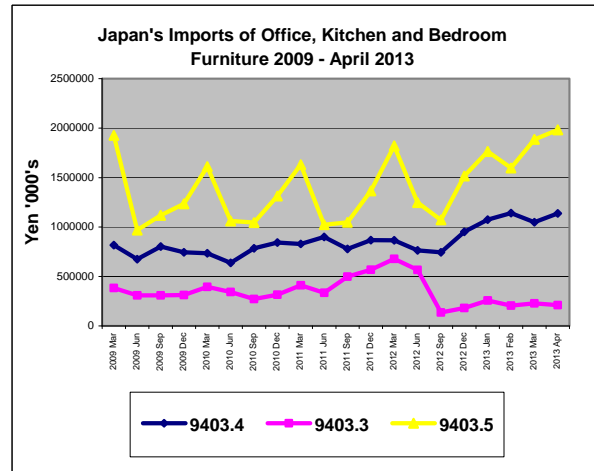
Meranti regular log prices are 9,400 yen per koku CIF, 500 yen up from April. Plywood mills suffer high log and adhesive cost and beg customers to accept higher plywood prices.

Price trends for imported Indonesian and Malaysian plywood



Japan's April furniture imports

The source and value of Japan's office, kitchen and bedroom furniture imports for April 2013 are shown below. Also illustrated is the trend in imports of office furniture (HS 9403.30), kitchen furniture (HS 9403.40) and bedroom furniture (HS 9403.50) between 2009 and April 2013.



Source: Ministry of Finance, Japan

Office furniture imports (HS 9403.30)

	13-Mar Yen '000s	13-Apr Yen '000s
S. Korea	4805	5384
China	92188	95709
Taiwan P.o.C	5179	10657
Thailand	7193	1778
Malaysia	16644	30803
Philippines	-	217
Indonesia	14150	6735
Sweden	-	-
Denmark	2042	4615
UK	2230	-
Belgium	-	-
France	-	-
Germany	11230	4255
Switzerland	346	-
Portugal	16269	4014
Italy	17805	11050
Poland	23049	22649
Austria	1038	-
Lithuania	2338	2775
Czech rep.	-	1427
Slovakia	2023	2529
USA	7917	6451
Mexico	2659	-
total	229105	211048

Source: Ministry of Finance, Japan

In April 2013 Japan's imports of office furniture from China and Malaysia accounted for more than half of total imports of this category of furniture. If imports from

Poland are added to those from China and Malaysia then three countries account for 71% of office furniture imports.

April imports from China were at around the same level as in March but imports from Malaysia jumped from yen 16,6mil. to yen 30.8 mil. Imports from EU member states accounted for just 25% of Japan's office furniture imports in April. The main EU suppliers were Poland at yen 22 mil. followed by Italy at yen 11mil.. Office furniture imports from the EU all declined in April.

In April, Japan's total office furniture imports totaled yen 211 mil a decline of 7.8% from March mainly because of the drop in imports from the EU

Kitchen furniture imports (HS 9403.40)

Kitchen furniture imports remain the second largest segment of all wooden furniture imports into Japan after bedroom furniture.

Kitchen furniture imports (HS 9403.40)

	Imports 13-Mar Yen '000s	Imports 13-Apr Yen '000s
S. Korea	-	426
China	215610	198312
Taiwan P.o.C	-	2618
Vietnam	400303	476712
Thailand	26827	7776
Malaysia	55759	40490
Philippines	148867	140234
Indonesia	147644	187076
Sweden	-	-
Denmark	470	2132
UK	1745	1413
Belgium	-	-
France	-	324
Germany	23597	46312
Switzerland		689
Spain	-	224
Italy	9984	10914
Austria	1972	1687
Lithuania	3565	4631
Canada	3193	15896
USA	10376	-
total	1049912	1137866

Source: Ministry of Finance, Japan

Vietnam continues to be the number one supplier of kitchen furniture to Japan. In April the value of imports from Vietnam totaled yen 476 mil. up around 20% from levels in March this year representing almost 42% of all kitchen furniture imports.

Three suppliers Vietnam, China and Indonesia accounted for 75% of total kitchen furniture imports by Japan in April and if shipments from the Philippines is included, then four suppliers provided 88% of the total

Shipments of kitchen furniture from Europe in April were dominated by those from Germany, yen 46 mil. almost double the value of March shipments. Italy was the second largest supplier in Europe at yen 10 mil. a figure close to that for March shipments

Canada feature as supplier of kitchen furniture to Japan in April and the value of shipments at almost yen 16 mil. were around three times the level in March this year

Bedroom furniture (HS 9403.50)

Japan's imports of bedroom furniture are close to yen 2 bil. monthly. Imports in April were valued at yen 1.98 bil. up from the yen 1.88 bil. in March this year.

Bedroom furniture (HS 9403.50)

	Imports 13-Mar Yen '000s	Imports 13-Apr Yen '000s
S Korea	-	313
China	1011482	1111325
Taiwan P.o.C	40643	25891
Hong Kong	-	239
Vietnam	410394	468002
Thailand	54782	74033
Singapore	-	-
Malaysia	220560	129761
Philippines	3599	3919
Indonesia	52396	59873
India	-	-
Sweden	10932	16483
Denmark	1662	1073
UK	214	328
France	-	211
Germany	3125	5000
Switzerland		599
Spain	-	-
Italy	20556	14409
Finland	-	880
Poland	19704	32117
Austria	-	1476
Romania	2141	-
Turkey	-	799
Lithuania	-	305
Bosnia	3550	738
Slovakia	5350	5168
USA	24308	28526
Mexico	-	300
total	1885398	1981768

Source: Ministry of Finance, Japan

As in March the top suppliers were China and Vietnam which together accounted for around 79% of all wooden bedroom furniture imports to Japan. Shipments of bedroom furniture to Japan from China in April were up over 9% and shipments from Vietnam, the second largest supplier, were up 12%.

The performance of exporters in SE Asia was mixed in April with Malaysia shipping yen 13 mil. down a massive 45% while companies in Indonesia shipped 13% bedroom furniture in April (yen 59.8 mil.) compared to levels in March.

Report from China

Currency volatility - Chinese exporters focus on short-term business

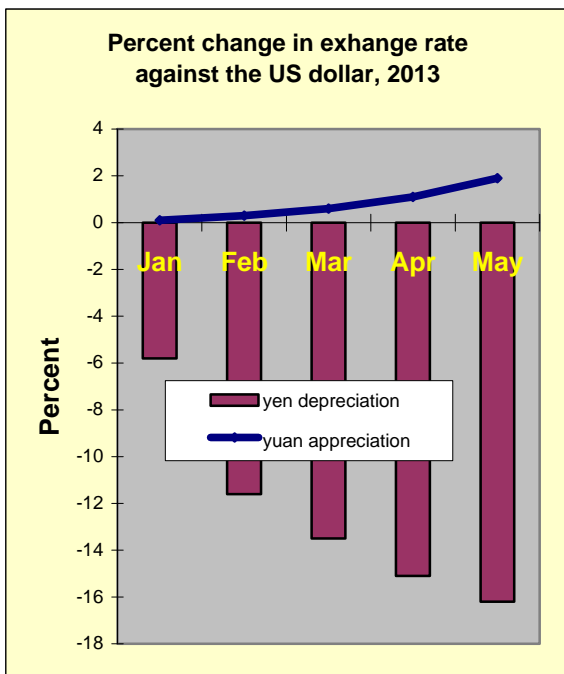
The depreciation in the yen has greatly affected China's exports to Japan. By mid May the accumulated appreciation of the yuan against the dollar was around 2% but the yuan had strengthened by more than 5% against the yen.

The strong yuan appreciation has hit Chinese exporter's profit margins hard and this extra burden comes on top of the rising costs of raw materials and labour.

The continued appreciation of the yuan is seriously affecting Chinese exporters and causing them to focus on short-term business arrangements instead of longer-term business developments. The challenges in the export market from very volatile exchange rates are now a threat to the survival of many small and medium sized businesses according to the Ministry of Commerce.

A survey of Chinese exporters conducted by the Ministry of Commerce indicated that more than three quarters of those surveyed experienced significant declines in profits during the first four months of the year.

See: <http://english.mofcom.gov.cn/article/newsreleases>



Increased April domestic sales boost profits

The profits of large Chinese industrial companies improved in April due mainly to increased sales and this is in sharp contrast to the reported decline in the

manufacturing index that appeared to signal a slowing of the economy.

The National Bureau of Statistics, in a recent press release, said company profits in the first four months of the year increased 11 percent. Analysts commented that improved profit levels could stimulate industrial expansion and that this would help sustain growth in the economy.

In related news the government has made it clear that the industrial sector should not sacrifice the environment to ensure short-term growth.

Output Value of China's Forestry Industry in 2012

According to the State Forestry Administration Annual Forestry Statistical Yearbook for 2012, the total output value of China's forestry industry was RMB3.95 trillion in 2012 (calculated at present price).

This represents an increase of 29% compared to levels in 2011. The growth rate in output from China's forest industry has averaged 23% since 2001.

The output value from the primary sector was RMB1.37 trillion, accounting for 35% of the total, up by 24% year on year.

The output value of the secondary processing sector was RMB2.09 trillion, some 53% of total output and up by 25% on 2011 levels. Output from the tertiary sector was RMB0.48 trillion, accounting for 12% of the total up by 68% compared with output in 2011.

In recent years, the structure of the three main timber sectors has changed and at present the proportion of the three main industrial sectors, primary, secondary and tertiary is 35 : 53 : 12, this marks a significant change from the situation at the end of 2005 (the 10th Five Year Plan) when the distribution was 52 : 41 : 7. The proportion of secondary and tertiary industries has steadily increased.

Within the primary sector the output value of economic forest products such as dry and fresh fruit, tea, herbal medicine and food items was RMB775 billion or 56% of the total in the primary sector making it the largest segment.

Amongst the secondary sector outputs the value of timber and bamboo processing and output from manufacturing including sawnwood and wood-based panel was RMB823 billion, which at 39% of the total output from the secondary sector was the largest proportion.

Also, within the secondary sector, the output value of wood and bamboo pulp paper making was RMB475 billion and the output value of wooden and bamboo furniture manufacturing industry was RMB279 billion.

In the tertiary industry, the output value of forestry tourism and leisure services industry was RMB352 billion (73% of the total).

The expansion of new industries in the sector has been rapid with forest tourism and leisure services industry growing by 89%, output of the oil tea industry growing by 58% and wild animal breeding expanding by 39%.

Output of logs and sawnwood

In 2012, the total output of roundwood was 81.74 million cubic metres, being basically the same as in 2011. Industrial log output from national forest was 74.94 million cubic metres. Fuel wood production in 2012 was 6.80 million cubic metres.

The main log producing areas in 2012 were Guangxi Zhuang Autonomous Region, Guangdong, Fujian, Shandong, Yunnan, Anhui and Hunan provinces.

The output of sawnwood in 2012 was 55.68 million cubic metres, up by 25% over that in 2011 while the output of woodchips was 29.07 million cubic metres, up 30% year on year.

Output of woodbased panel

In 2012, furniture industries, the construction sector and the builders wood work sector were affected by the forced slowdown of the domestic real estate industry and by weaker export demand.

As a result of these two factors production of woodbased panels slowed in 2012. Total output of woodbased panels was 223.36 million cubic metres, up by 7% in comparison with that of 2011.

The output of plywood in 2012 was 109.81 million cubic metres, (plus 11% year on year) and accounted for 49% of the total output of woodbased panels. The output of fibreboard was 58 million cubic metres (of which 50 million was MDF), up by 4% on 2011 and accounted for 26% of the total.

Particleboard production was 23.50 million cubic metres, down 8% on 2011 levels. Output of other wood based panels was 32.50 million cubic metres up by 9% year on year.

Blockboard made up 58% of other woodbased panel output. Other outputs included veneer, 34.92 million cubic metres and decorative boards 192 million square metres.

At the provincial level, the output of wood-based panel exceed 10 million cubic metres in Shandong, Jiangsu, Guangxi, Henan, Anhui and Hebei provinces and autonomous regions.

The total output of wood based panels in these six provinces was 163.93 million cubic metres, making up 73% of China's total output of wood based panels.

Output of wooden and bamboo flooring

The output of wood and bamboo flooring in 2012 was 604 million square metres, down by 4% on 2011 and the first drop in many years.

Of the total, the output of wooden flooring was 125 million square metres, (21% of the total); the output of composite wood flooring was 371 million square metres, (61% of the total); the output of other wooden flooring and bamboo flooring was 59 million square metres and 49 million square metres respectively.

The largest wood and bamboo flooring producers are Jiangsu and Zhejiang provinces whose outputs were 144 million square metres and 119 million square metres respectively.

The national output of rosin products was 1.41 million tonnes in 2012 about the same as in 2011; turpentine output was 187,400 tonnes, up 3% compared to 2011 while camphor output was 11,400 tonnes.

In 2012, the output of bamboo poles was 1.644 billion pieces an increase of 7% from levels in 2011. Of the total, the output of Moso bamboo (a temperate species of giant timber bamboo native to China) was 1.115 billion pieces. The output value of the bamboo industry as a whole reached RMB122.4 billion in 2012.

Domestic prices of forest products

The average price of logs in 2012 was 757 Yuan/cubic metre, the same level as in 2011 and the average price for bamboo was 8 Yuan/piece, a slight increase on 2011.

The average price of sawnwood was 1213 Yuan/ cubic metre, (plus 6% year on year) and the average price for wood chips was 716 Yuan/cubic metre, down 17% on 2011 prices.

The average price for wooden flooring was 158 Yuan/square metre, up by 20% in comparison with 2011 and the average price for plywood was 1868 Yuan/cubic metre, down by 9% on 2011.

The average price for MDF was 1505 Yuan/cubic metre, a drop of 11% year on year but the average price for particleboard was 1103 Yuan/cubic metre, up by 3% on 2011.

China's Foreign trade in Forest Products

Because of the sharp drop in demand in the EU, US and Japanese markets China's traditional wood product exports such as wood furniture, plywood and paper fell dramatically in 2012.

The volume of China's softwood imports also fell sharply in 2012.

While demand weakened in traditional markets demand in emerging markets steadily increased in 2012 and imports by these markets and increased imports by the US on the back of improving economic conditions softened to downward trends in international trade.

A summary analysis from the statistic data of China Customs indicates that the total import and export value of China's forest products in 2012 was US\$118.83 billion, down just 1% year on year.

Of the total trade exports were US\$57.57 billion, (plus 5.0% year on year) while imports were US\$61.26 billion a drop of 6% from 2011 levels.

Import of main wood products

In 2012, the volume of log imports was 37.89 million cubic metres valued at US\$7.25 billion, a decline of 10% in volume and 12% in value from 2011. The volume of sawnwood imports in 2012 was 20.67 million cubic metres worth US\$5.52 billion, down 4% in volume and 3.5% in value compared with levels in 2011.

The volume of paper and paper board imports were 3.254 million tonnes (down 6% year on year) valued at US\$4.6 billion (down 9% year on year).

The volume of paper pulp imports was 16.46 million tons valued at US\$11.04 billion, reflecting a 14% decline in volume and 7% decline in value compared to 2011.

Imports of wooden furniture amounted to 6.368 million pieces valued at US\$600 million in 2012 up by 15% in terms of number of pieces and up 9% in value compared to 2011.

Export of main forest product

2012 exports of wooden furniture amounted to 290 million pieces (down almost 1% year on year) valued at US\$18.33 billion (up by 7% year on year).

China's exports of paper and paper board totaled 6.065 million tonnes (plus 1%) valued at US\$10.98 billion (plus 6%).

The volume of plywood exports was 10.03 million cubic metres valued at US\$4.8 billion, increasing by 5% and 10% respectively on 2011 figures.

Guangzhou Yuzhu International Timber Market

Logs		Yuan/cu.m
Lauan	Diameter 60 cm ⁺	2000-2200
Kapur	Diameter 80 cm ⁺	3100-3200
Merbau	Diameter 100 cm ⁺	5200-5400
Teak	Diameter 30-60 cm	6500-13000
Wenge		4300-4800
Red Oak (France)	Diameter 30 cm ⁺	2500-2600
Purpleheart	Diameter 60 cm ⁺	3500-3600
Rosewood		3700-4200
Sawnwood		
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
Teak (plantation)	Grade A	9600

Shanghai Furen Forest Products Wholesale Market

Logs		Yuan/tonne
Red sandalwood (India)	All grade	1-2 mil.
Rengas (Vietnam and Nepal)	All grade	7000-8800
Granadillo (Mexico)	All grade	7500-8000
Sawnwood		
Okoume (Africa)	grade A	4300-4700
Sapelli (Africa)	grade A	5800-6300
Beech (Europe)	grade A	4500-4800
Red Oak (North America)	2 inches FAS	7000-7300
Cherry (North America)	2 inches	9800-10500
Maple (North America)	2 inches	8700-8900
Merbau (Indonesia)	All grade	8500-13500

Hangzhou Timber Trading Market

Logs		Yuan/cu.m
Ash	4 m 30 cm	3200-4800
Larch	4 m 8 cm 10 cm	1800-2900
Linden	4 m 26 cm	2400-3500
Sawnwood		
Beech (Europe)	All grades	2800-5000
Black walnut (N. America)	All grades	7000-13000
Teak (Myanmar)	All grades	9000-18000
Red oak (N. America)	All grades	3500-5000
Alder (Myanmar)	All grades	4500-5300
Merbau	All grades	7200-12000
Plywood		
Red beech	3mm	50-75
Black walnut	3mm	60-102
Teak	3mm	70-148

Shandong De Zhou Timber Market

Logs	Length	Diameter	Yuan/ cu.m
Larch	4m	18-22 cm	1230
	4m	24-28 cm	1250
	4m	30 cm	1450
	6m	18-22 cm	1280
	6m	24-28 cm	1300
	6m	30 cm	1500
White Pine	4m	24-28 cm	1320
	4m	30 cm	1400
	6m	24-28 cm	1350
Korean Pine	6m	30 cm	1400
	4m+		1700
Mongolian	6m+		1750
	4m	30 cm	1380
Scots Pine	4m	36 cm	1500
	6m	30 cm	1420
	6m	36 cm	1600

Wenzhou Timber Trading Market

Logs		Yuan/cu.m
Ash	2 m 20-30 (cm)	1300
Chinese fir	4 m 16-18 (cm)	1500
Wenge	all grades	4500-5100
Teak (Plantation)	all grades	2100-2500
Merbau	all grades	3500-5000
Spelle	all grades	3200-3700
Plywood		
Red beech	4' x8' x3 mm	40-80
Black walnut	4' x8' x3 mm	40-85
Teak	4' x8' x3 mm	45-110

Low European demand for African hardwood balanced by limited supply

European demand for African hardwood remains quiet, with orders in northern European markets similar to last year and demand very weak in southern Europe. However, low demand is balanced by restricted supply.

Prices for sapele logs and sawn have been rising in recent months due to shortfalls in EU landed stocks and uncertainty surrounding deliveries from Africa. Most African sawmills are now fully sold out of sapele and are only willing to accept new orders for shipment in the third quarter of 2013. Prices for other key species such as iroko and utile have been stable.

According to the Germany-based journal EUWID, African hardwood supplies are being disrupted due to internal political problems in some African countries and increasingly irregular shipment from African ports.

Particular problems are reported in supply from the Central African Republic due to the civil war in the country. Lack of wood volume has also discouraged shipping companies from calling at Douala port in Cameroon and to other commodities being prioritised for shipment for the limited number vessels that are calling.

Although the European market for tropical logs is now much reduced, European importers report difficulties in securing the limited volumes still required.

European log buyers are struggling to compete on price with Asian buyers and log supply is also restricted by the Liberian log export ban introduced at the start of the year.

Rougier hit by shipment delays and weak French market

Supply problems also feature prominently in the financial statement of the French company Rougier for the first quarter of 2013 which explained that a 14.6% fall in International Division quarterly revenue relative to the same period in 2012 was “*due to certain exceptional external events.... In Cameroon, the introduction of new customs regulations and delays with issuing administrative authorizations led to delays with shipments during the quarter. In Congo, shipments were affected by changes to land logistics due to blockages when crossing the Central African Republic. In Gabon, business levels remained low as a result of industrial and timber difficulties linked to the transformation of the business model*”.

The Rougier quarterly financial statement also highlights the extent of the recent downturn in the French market for African hardwood.

Rougier report revenues for the France Import-Distribution segment were down 20.9% in the first quarter of 2013 compared with the first quarter of 2012.

According to Rougier “*sales for the past quarter reflect the low point reached by the market faced with a significant deterioration in the national economic environment and unfavourable weather conditions.*”

Italian market slow and uncertain

The market in Italy also remains slow with much uncertainty over future prospects. Many large Italian wood manufacturing companies are believed to be in serious financial difficulty following a big downturn in Italy's domestic market.

Some importers are limiting sales to certain customers in order to reduce liability and protect against bad debt.

Problems of bad debt also extend to Italian government departments that, in some cases, have been delaying payment under procurement contracts for over 12 months.

This has led to passage of a new law in Italy that will require payment on these contracts within 30 days. This measure should at least remove one existing impediment to recovery of the Italian wood market.

Some of the larger Italian importers with large distribution networks to other parts of the EU recently took steps to replenish depleted stocks of tropical sawn hardwood in anticipation of rising prices and declining supplies.

However smaller Italian importers selling mainly into the domestic market are now much less willing to buy wood direct from tropical producers, due to the combined effects of limited bank credit, uncertain market prospects, and concern about the legal liabilities associated with the EU Timber Regulation.

No improvement in Spanish market for tropical sawn hardwood

In Spain, sawn hardwood imports last year suffered a 37% fall compared to the previous year and were less than a quarter of the volume that prevailed before the economic crises.

This year Spanish importers are reporting no improvement in market conditions, with very little consumption and widespread lack of liquidity throughout the wood distribution chain. Spain still has a large surplus of partially built or unsold houses which is stifling any demand for new buildings.

Those Spanish wood manufacturers offering specialised products, or that are more focused on exports, are doing better. Few Spanish importers are expecting any increase in demand during 2013, although there is some hope that the situation will improve in 2014.

Erratic buying in the UK

Market conditions are better, although hardly buoyant, in parts of northern Europe. The UK has been one of the more robust markets in Europe for tropical wood.

UK imports of sawn tropical hardwood were 122,000 m³ in 2012, very close to the 120,000 m³ recorded in 2011.

UK importers also report reasonable demand so far this year with most expecting sales for 2013 to be similar to last year.

However UK buying of tropical sawn hardwood has been erratic. Stocks of sapele, the mainstay of the UK trade, are low and few importers have been willing to build inventory with future market demand uncertain and credit still tight.

However this means that any slight upturn in demand quickly leads to shortages and importers looking around to secure wood. Introduction of the EUTR has also meant that UK importers are now more restricted in the range of tropical sawn hardwood suppliers they are willing to deal with.

Lack of existing landed stock in the UK has led to distributors buying more sapele from continental Europe, including significant volumes from large Italian importers.

In contrast, there are reports of significant unsold landed stocks of framire/idgbo in the UK imported from Ivory Coast.

Despite these stocks being imported in advance of EUTR enforcement in March 2013, distributors have been reluctant to purchase the wood due to concerns about lack of clear documentation to demonstrate legal provenance.

There is some concern about the potential for a slowdown in the UK joinery sector, by far the main market for sawn hardwood in the UK. The UK Construction Products Association is now predicting a 2% fall in construction output in 2013.

A very sharp 7% fall in private commercial construction is expected to be offset by improving activity in private housing and the infrastructure sectors.

More enquiries for tropical sawn hardwood in Germany

Germany has also been a reasonably consistent market for sawn tropical hardwood in recent times. Although unseasonably cold weather meant sluggish demand in March and April, enquiries for tropical sawn hardwood have increased in Germany in recent weeks.

So far these only occasionally result in significant sales and buying remains concentrated in small volumes at short notice.

Although austerity measures have curbed some public spending in Germany, the private sector is continuing to generate demand. Unemployment is low in Germany compared to other European countries helping to maintain consumer confidence and spending.

Building activity, particularly in renovation and refurbishment sector, is adequate to provide steady demand for hardwood. German distributors are also servicing a growing demand for hardwoods from manufacturers in Central Europe.

EUTR creates uncertainty in UK plywood market

According to the latest plywood market report from the UK's TTJ, the country is still digesting substantially higher imports of Chinese plywood that preceded implementation of the EU Timber Regulation (EUTR) on 3 March.

Plywood market specialists interviewed by TTJ report that stocks have built up in the UK as consumption has not kept pace with imports in the first two months of the year. TTJ quotes HM Revenue and Customs data which suggests that in value terms, UK imports of Chinese plywood surged to £26.76m in the January-February 2013 period, almost 44% more than the same period in 2012.

According to UK Timber Trade Federation statistics, China accounted for 57% of UK hardwood plywood imports in January 2013 compared to 48% in January 2012.

TTJ also suggests that EUTR is causing problems in China itself, noting that many exporters who said they would be able to comply to EUTR have not been able to secure adequate documentation regarding legality of logs.

Some Chinese plywood manufacturers exporting to Europe are now looking for alternatives to tropical species for the face and back veneers, the most popular currently being dyed poplar – although this is significantly more expensive.

According to TTJ UK demand for Malaysian plywood is slow. Malaysian mills are pushing for higher prices, but UK importers are in no rush to buy in current market conditions.

EUTR offers both risks and opportunities

A key issue for tropical wood suppliers to the EU is the effectiveness, efficiency and equity of enforcement of the EUTR.

If managed well, the law should boost market prospects and prices for legally sourced tropical wood products. It could provide a firm foundation for proactive communication of good forest governance and responsible timber trade practices.

On the other hand, if managed badly, the law could encourage imposition of unnecessary and ineffective new controls and create added uncertainty at a time when consumption is already weak and declining.

This could be to the detriment of tropical hardwoods compared to other wood products, and of all wood products compared to alternative materials.

Early reports indicate that the European Commission (EC) and EUTR competent authorities in Member States still have considerable work to do if the law is to contribute positively to forest governance in timber supplying countries.

Government authorities in countries engaged in FLEGT Voluntary Partnership Agreements (VPA) with the EU also have a daunting task to establish operational legality licensing systems that will have a “green light” under EUTR and not require any further legality due diligence by EU importers.

In addition, the private sector has to act on the far-reaching responsibilities it has been given through EUTR to develop due diligence systems, both at corporate level, and through so-called “Monitoring Organisations” which will be formally recognised by the EC to act on behalf of groups of small timber traders in the EU.

Continued economic weakness in EU makes EUTR more challenging

It’s hard to imagine a worse time than the present for introduction of EUTR. The economic downturn in Europe has reduced EU consumption of tropical hardwoods by about 50% in the last five years.

This means that EU leverage, both politically in the FLEGT VPA process and commercially in day-to-day buying power, has been considerably weakened in tropical countries.

EU importers are, with justification, concerned that while they become increasingly discriminatory in their procurement practices, tropical wood trade flows will simply be diverted to other markets.

At the same time, the economic downturn means that both government authorities and the private sector in EU countries lack the resources to implement the regulatory and due diligence procedures required by EUTR.

Lack of credit and very uncertain consumption patterns has meant that European importers have already become very risk adverse and less inclined to stock tropical hardwoods. For many, EUTR will provide yet another reason to switch to less contentious products.

With such challenges, it is not surprising that implementation of every aspect of EUTR is behind schedule.

Implementation of EUTR before VPAs ratified creates dangers for tropical wood

A key problem for tropical producers is that the EUTR has been introduced before any tropical country is able to offer FLEGT VPA licensed timber. Indonesia is probably the closest to doing so, having already pilot-tested delivery into Europe of “V-Legal” timber under the SVLK system.

However, even in this case, first deliveries of fully FLEGT licensed timber are not expected at least until the end of 2013 and more likely in 2014. In the meantime, all timber supplied by the SVLK system is subject to due diligence by EU importers in the same way as other wood products.

The gap between introduction of EUTR and supply of FLEGT VPA licensed timber is a dangerous one for the tropical timber trade in Europe.

If importers are discouraged from buying from VPA countries due to legal uncertainties in the intervening period and instead seek out substitutes, lack of continuity in supply may make it more difficult to claw back market share once licenses become available.

At the same time, it is important that the FLEGT VPA process is not rushed. The licensing systems must be robust, credible and equitable with respect to different forestry operators. Failure to achieve this would undermine the reputation of EUTR and the VPA process amongst both consumers and producers.

The parties to the VPAs have a very difficult challenge and heavy responsibility to operationalize and reach agreement on the licensing systems as soon as possible.

The complexities of this process also imply that the FLEGT VPA process is not likely to supersede existing private sector procedures any time soon. Certification systems like FSC and PEFC have been very active adapting their standards so that they align more closely to the EUTR and these are likely to remain a key component of EU importers due diligence systems.

The role of voluntary private sector supplier-based legality verification and stepwise certification systems - such as those operated by Smartwood, Bureau Veritas, SGS, SCS, and TFT – is likely to increase rather than diminish over the next few years.

Patchy EUTR enforcement in EU Member States

Meanwhile, implementation of EUTR within the EU itself remains very patchy.

The EC has yet to recognise any Monitoring Organisations which implies significant gaps in implementation by small traders across the EU. Some EU Member States – like the UK, Netherlands and Germany – have announced sanction regimes and initiated inspection regimes.

But even in these Member States, EUTR competent authorities have limited experience of the timber trade and are just beginning to wrestle with the complexities and numerous “grey areas” associated with legality enforcement in the forest products sector.

Other Member States are even further behind. Some have not yet passed the laws necessary to implement EUTR within their national territories.

At the inaugural meeting of the Global Timber Forum in Rome in May 2013, an Italian importer reported that “in Italy there is no legislation [to enforce EUTR], no approved due diligence systems, suppliers are not keen to move forward and do not want to provide information on supply chains, there is no money in the profession to invest in this project, there is no decent guidance.

The first Italian [timber importers] federation meeting to discuss EUTR in June 2012 was attended by only 8

companies out of 120, the second meeting in February 2013 attracted only 20 members.”

EUTR and VPAs key role in future of tropical wood trade

So the challenges of the EUTR and FLEGT VPA processes are profound and made all the more challenging by the current market environment.

However, it would be wrong to conclude from this that the EUTR and FLEGT VPA processes are any less relevant to the future of the European and wider international wood trade.

Even after the downturn, the EU is the world’s second largest importer of timber products (after China), accounting for around 17% by US\$ value.

The EU’s construction sector continues to purchase materials and services with a value of around €1 billion every year.

The EU also buys less logs and more added-value forest products than most other large consuming markets and therefore remains central to efforts by tropical countries to move up the value chain.

It’s also important not to lose sight of the key feature of the EUTR, which is that it gives the main role and responsibility for due diligence to the private sector.

Lack of guidance from the EC and other government authorities, while creating uncertainty in the short term, also represents a major opportunity for the private sector to build on existing programs like PEFC, FSC and numerous timber trade association and NGO procurement codes and policies to develop innovative solutions.

While the situation in Italy suggests there are significant gaps in the private sector response to EUTR, there are very positive signs elsewhere. For example, EUTR has been a major driving force behind formation of the European Timber Trade Federation (ETTF), an organisation bringing together national federations from around Europe in pursuit of common goals.

The ETTF has developed a harmonised due diligence system in collaboration with the Danish environmental consultancy NEPCon. The aim is to provide a system that works across the EU for entire timber federations or individual companies.

ETTF is now very actively promoting EUTR and its harmonised due diligence approach both within and outside Europe.

Launch of Global Timber Forum

The emergence of parallel regulatory programs like EUTR, the Lacey Act Amendment and the Australian Illegal Logging Bill, has emphasised the importance of the private sector timber trade working more closely together at an international level.

Recognition of common interest of both producers and consumers in finding solutions to the challenges of this legislation was a major factor encouraging broad international participation in the first Global Timber Forum held in Rome on 22-23 May 2013.

The meeting was convened with support from the FAO Forestry Department, the European Timber Trade Federation (ETTF) and The Forest Trust (TFT). It was attended by over 80 participants, mainly representatives of timber trade associations, including from North and South America, Africa, South East Asia, China, Europe and Australasia.

The meeting concluded with the agreement of all parties to formally establish an international networked organisation, making maximum use of web-based tools and holding a regular annual meeting. The network is established to facilitate information exchange in the first instance.

However, in time it is expected to take a lead in development and implementation of action plans and programs on issues of common concern and to leverage the required project finance. More details: <http://www.fao.org/forestry/trade/82078/en/>.

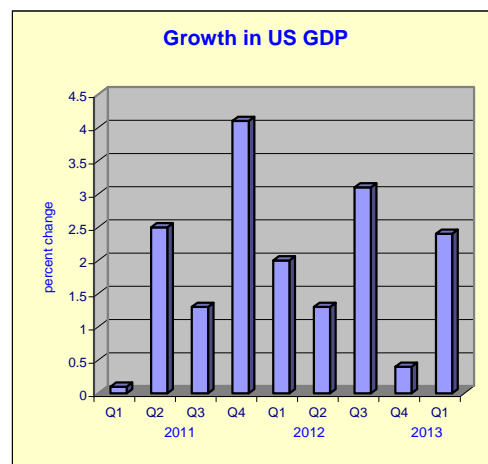
Report from North America

Job creation remains the biggest challenge for US

According to revisions released by the Commerce Department the U.S. economy grew at a slightly slower pace than originally reported in the first quarter.

The revisions show that GDP rose at a 2.4% annual rate in the first three months of the year, down slightly from the 2.5% originally reported..

The Commerce Department tends to revise GDP figures as new data becomes available after the initial release. Despite the downward revision this did not change the overall picture of the economy. Recent data indicates that consumer spending expanded in the first quarter but job creation to lower unemployment remains the biggest challenge.



New legislation to encourage residential construction loans

The Home Building Lending Improvement Act of 2013 has been introduced in the US Senate to encourage lending to home builders. New home construction lags the demand for housing, and home builders lay the blame partly on difficult access to loans for construction.

A similar bill, the Home Construction Lending Regulatory Improvement Act of 2013, was introduced in the US House of Representatives in March 2013.

The National Association of Home Builders expects from the proposed legislation not only more construction of new homes, but positive effects on local economies, job growth and increased government revenue.

Tropical sawn hardwood imports trail temperate species imports

Total US hardwood sawnwood imports soared in March, but the increase was entirely of temperate hardwood imports. Temperate sawn hardwood imports increased by 131% from February, to 78,403 cu.m., while tropical sawn hardwood grew by 20% to 14,656 cu.m.

The majority of the additional temperate hardwood volume comes from Uruguay, South Africa and Canada. Year-to-date imports of tropical sawnwood are 10% lower than in March 2012.

Imports from Brazil rose to 3,485 cu.m. in March (+38% year-to-date). The increase was mainly in shipments of ipe (1,811 cu.m.) and virola (911 cu.m.).

Balsa imports from Ecuador increased to 2,673 cu.m. from February, but they remained below 2012 levels (-36% year-to-date).

March imports from Peru were small at 259 cu.m., but year-to-date imports are still 18% higher than in 2012 because of the large volume of virola imported in January. Imports from Malaysia increased to 1,453 cu.m. (+1% year-to-date), despite a decline in keruing shipments to 910 cu.m.

Cameroon's shipments to the US declined to 973 cu.m. in March (-30% year-to-date). Sapeli shipments fell to 637 cu.m.

US imports of sawn tropical hardwood, by country

	February cu.m	March cu.m	Percent change
Ecuador	2,374	2,673	13%
Brazil	2,273	3,485	53%
Cameroon	1,474	973	-34%
Malaysia	1,302	1,453	12%
Congo (Braz)	427	566	33%
Peru	216	259	20%
Indonesia	493	604	23%
Ghana	556	773	39%
Cote d'Ivoire	556	728	31%
Other	3,141	3,870	23%
total	12,812	15,384	20%

US imports of sawn tropical hardwood, by species

	February cu.m	March cu.m	Percent change
Balsa	2,374	2,679	13%
Sapelli	1,232	1,233	0%
Acajou d'Afrique	1,575	1,907	21%
Keruing	1,115	1,224	10%
Ipe	1,157	1,926	66%
Mahogany	572	1,680	194%
Virola	218	911	318%
Meranti	420	261	-38%
Cedro	749	525	-30%
Jatoba	424	366	-14%
Teak	457	491	7%
Iroko	2	35	1650%
Padauk			
Meranti			
Aningre	4	4	0%
Other tropical	1,957	1,414	-28%
total	12,256	14,656	20%

US regional and state economies and housing markets

The Southeast of the US is the largest economic region, followed by the Far West and the Mid-eastern states. GDP grew in all states and regions in 2011 (latest data available), but the rate of growth slowed from the previous year.

The only region where growth accelerated from 2010 was the Far West, which includes the states of Alaska, California, Hawaii, Nevada, Oregon and Washington.

The overall fastest growing region in the US was the Southwest. The growth was led by Texas with a 3.3% increase in real GDP.

California is the largest state in the US, both in GDP and population, accounting for 13% of the total US economy. Californians also have a higher than average personal income, only surpassed by states in New England and in the Mid-eastern states.

The housing market crash in 2008 and 2009 affected the regions differently. Among the hardest hit were Arizona, California and Florida.

Cities here also show the largest increases in home sales, now that the housing market is recovering. Texas remained the largest market in the US in terms of building permits issued in 2012, despite California's larger population.

US regional economies and housing market

Regional	GDP	Building
	Change	permits
	2011	2012
United States, Total	1.5%	829,658
By Region:		
Southeast	0.9%	257,222
Far West	2.1%	110,333
Mideast	0.9%	84,738
Great Lakes	1.4%	68,216
Southwest	2.7%	173,842
Plains	1.0%	64,779
New England	1.8%	23,109
Rocky Mountain	1.4%	47,419

US top 10 state economies and housing market

State	GDP	Building
	Change	permits
	2011	2012
Top 10		
California	2.0%	58,549
Texas	3.3%	135,514
New York	1.1%	24,872
Florida	0.5%	64,810
Illinois	1.3%	13,797
Pennsylvania	1.2%	18,796
New Jersey	-0.5%	17,939
Ohio	1.1%	16,905
North Carolina	1.8%	48,692
Virginia	0.3%	27,278

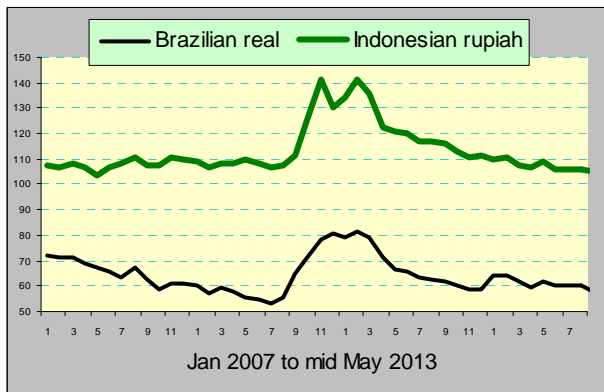
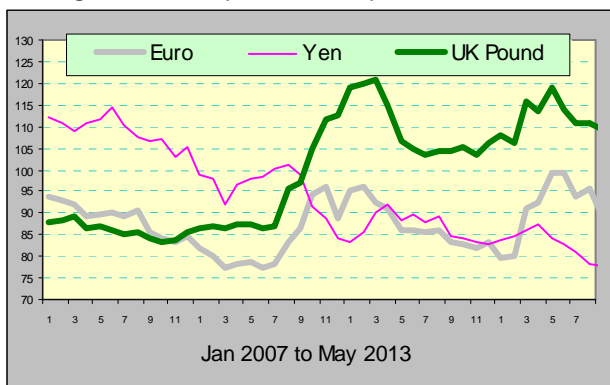
Disclaimer: *Though efforts have been made to keep prices near to accurate, these are published as a guide only. ITTO does not take responsibility for the accuracy of this information.*

Main US Dollar Exchange Rates

As of 26th May 2013

Brazil	Real	2.0513
CFA countries	CFA Franc	506.96
China	Yuan	6.1314
EU	Euro	0.7733
India	Rupee	55.8210
Indonesia	Rupiah	9772
Japan	Yen	101.31
Malaysia	Ringgit	3.0335
Peru	New Sol	2.6735
UK	Pound	0.6611
South Korea	Won	1126.45

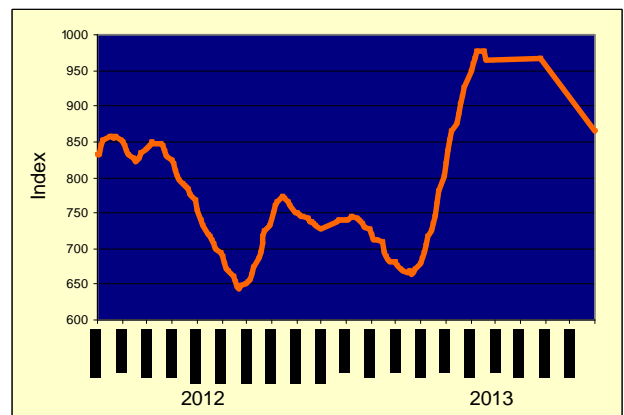
Exchange rates index (Dec 2003=100)



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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