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Indonesia

Solid Wood Products

Annual

2000

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Report Highlights:
Indonesia remains a global leader in production of hardwood plywood but due to the increasing costs of production, political unrest in several provinces and forest fires in 1997/98, plywood production declined from 8.5 million cubic meters in 1999 to 8.0 million cubic meters in 2000. Exports are also forecast to decline to 7.3 million cubic meters in 2000 from 7.8 million cubic meters in 1999 due to unfavorable economic conditions in major export markets and competition from other exporting countries. The Government of Indonesia (GOI) continues its efforts to protect the tropical rain forests and manage logging activities under sustainable forestry management. However, lack of personnel to enforce the regulations, corruption, remote logging sites and high log prices have rendered those efforts ineffective and illegal logging continues to reap up to 30 million cubic meters a year. In addition, illegal log exports and lower log quality from severe forest fires in 1997/98 have reportedly created a tightening of supply of logs in Indonesia. The GOI is pushing for the re-introducion of the export ban for logs but no decisions have been made. Export taxes are currently at 15% and will further decline to 10% by the end of the year and 5% at the end of 2001.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

The forest products sector of the Indonesian economy is in a solid position but it is not immune from ineffectual government policies, illegal logging, and forest fires in 1997/98 that have drawn down supplies of hardwood plywood, tropical hardwood lumber and tropical hardwood logs. Production of plywood is estimated down by 500,000 cubic meters to 8.0 million cubic meters in 2000. A rebound to 8.2 million cubic meters is forecast for 2001. Exports are also expected to decline from 7.8 cubic meters to 7.3 million cubic meters in 2000 and rebound to 7.5 million cubic meters in 2001. With respect to tropical hardwood lumber, production is down by 200,000 cubic meters, or 3 percent, in 2000 to 6.6 million cubic meters. The decline is expected to continue in 2001 with production forecast at 6.5 million cubic meters. Tropical hardwood log production should decline about 2 percent in 2000 to 25.5 million cubic meters and by an additional 2 percent in 2001 to 25.0 million cubic meters. Production and exports from illegal cutting are not reflected in official production or trade data. Illegal logging estimates range from a low of 8 to a high of 30 million cubic meters of which some are sold to the local wood processors and some are exported to neigboring countries.

Forest products, particularly plywood, are among Indonesia's major export commodities and revenue earners. The association of Indonesian plywood producers (Apkindo - Asosiasi Panel Kayu Indonesia) targeted plywood exports to generate US$ 2.5 billion in 2000. During January-February 2000 exports amounted more than 1.2 million cubic meters valued at US$ 349 million. Plywood exports' value in 1999 reached US$ 2.7 billion up from US$ 2.5 billion in 1998. Although supplies from Indonesia are tight, weaker demand in the main export markets has kept plywood export prices low, currently at around US$ 310/cum compared to an average price of US$ 348.2/cum in 1999 but on par with US$ 309.1/cum in 1998. Indonesia's official trade data report that log exports (temperate and soft wood species, not including tropical hardwood) for 1999 increased significantly to around 207,000 metric tons from only 40,000 metric tons in1998, valued at US$ 31.2 million. Log exports for January-February 2000 reached 30,000 metric tons, valued at US$ 6.3 million. Exports of total processed wood (including plywood, lumber and other processed wood) for 1999 generated US$ 3.8 billion down from US$ 4.4 billion in 1998. Due to tight supply, log prices in the domestic markets are increasing and reportedly ranging between Rp. 600,000 to Rp. 800,000 per cubic meter (US$ 64 to US$ 85 per cubic meter at the current exchange rate). A weak rupiah during the second half of the year could help boost exports (mainly by companies that do not have processing facilities). The Indonesian rupiah was stable until July at around Rp. 7,000/US$ 1 but has currently weakened to around Rp. 9,000/US$ 1 due to security and political instability as the People's Consultative Assembly General Meeting scheduled in August approaches.

Around 95 percent of plywood is exported with the main markets continuing to be Japan, the United States, Europe, and the Middle East. Due to difficulties getting good quality logs following the extensive forest fires in 1997/98 and higher cost of production, plywood exports in 1999 declined in volume to 7.8 million cubic meters, but with higher prices in terms of value they increased to US$ 2.7 billion. Exports in 2000 are expected to decline further to around 7.3 million cubic meters and forecast at 7.5 million cubic meters in 2001. According to official trade statistics, Indonesia does not export tropical hardwood lumber or logs.

While illegal cutting is far from under control, the Government of Indonesia (GOI) continues to push for sustainable forest management which includes selective cutting, replanting, and reforestation programs. Implementation statistics are unavailable but use of those practices remains limited. According to current policy the GOI is attempting to impose a fee on allowable cutting (the resources royalty provision, see Table 10) and limiting log production at an annual allowable cut of 24.0 million cubic meters per annum (the same as in 1999). This number is clearly exceeded when illegal cutting is factored into the total. These policies have led to a decline in the number of active forest concessions from 652 to 422 companies in 1999, most of which are privately owned.

On June 7, 2000, the GOI established an Inter Departmental Committee on Forests (IDCF) as a modest step toward addressing deforestation issues (Presidential Decree No.80/2000). This decree authorizes the IDCF to formulate the policies and coordinate the management and resolution of forest resource management and conservation problems. Considering the complex and difficult problems facing forest management, exploration and monitoring, many question whether this committee will be effective.

Whereas European countries call for ecolabel certification for wood products by 2002, ecolabel requirements in Indonesia are not fully enforced and only several companies so far have been certified. Instead, companies are enthusiastic about getting the international management merit certification for industrial products, such as the ISO 9004 which will enhance marketability and yield higher prices.

The domestic construction sector is rebounding slightly after the worst of the economic crisis but domestic demand for overall wood products remain low. The domestic industry is faced with a tight log supply due to illegal cutting and export and due to the fact that logs are being sourced out of more and more remote areas with inadequate transportation infrastructure to get the logs to market. In addition, uncertain government regulations and a precarious security and political situation are hampering the domestic industry. Domestic consumption of plywood is estimated at 700,000 cubic meters in 2000, down 4 percent from 732,000 cubic meters in 1999. Although the annual production capacity is around 10.5 million cubic meters, plywood production is on a downward trend due to a tighter supply of logs and market competition with, among others, China. The current social unrest in Maluku, Aceh and several other provinces has shut down some plywood mill activities which reduced the number to only around 100 active plywood mills. Over 50 percent are located in Kalimantan. The demand for plywood and other products will be strongly affected by the economic performance of major markets. Economic growth in 2000 is projected at 2.5 percent, much improved from 0.2 percent in 1999 and it bodes well for the construction industry. The plywood industry has been closed to investment since 1994 to guarantee the sustainability of the forest and also to avoid excessive supply. However, there is reportedly some renovation or upgrading of equipment in order to improve efficiency.

The Minister of Forestry and Plantations has proposed that a log export ban be reinstated to guarantee adequate supply for the local industry and to protect the forest from over-logging. The proposal is awaiting IMF consideration and mutual concensus. Effective January 2000, export taxes on wood products have been lowered from 20 percent to 15 percent and are scheduled to be lowered gradually to 10 percent by the end of 2000 and to 5 percent by the end of 2001. According to the Decree of the Minister of Finance No. 187/KMK.01/2000 dated May 30, 2000, the GOI lowered import tariffs of several wood products including lumber, fibreboard, and veneer by 5 percent. The new tariffs were effective June 1, 2000. The GOI imposes high export taxes on logs, lumber and plywood (see Table 2 and 8) to prevent excessive exports and guarantee adequate supply for local industries. Unfortunately high export taxes and/or an export ban may only serve to encourage illegal cutting and smuggling.

Without the involvement of the Indonesian Wood Panel Association (Apkindo), the plywood industry can now deal directly with its clients and arrange all aspects of a transaction. Some large companies see this as a challenge to increase their competitiveness in the international market which will certainly improve their performance. Under a tightening log supply situation, the wood working industries are being forced to improve the recovery rates from logs by installing equipment that can process smaller diameter logs. They also are producing particle board, block board and medium density fibreboard utilizing the waste of logs. Market opportunities for imported forest products, including temperate hardwood logs and veneers, are expected to continue to increase as exports of fancy plywood are promising good returns. Export development activities are carried out through the National Agency for Export Development (NAFED), however, trade promotion is carried out by the private sector (mainly for secondary processed wood products and furniture).

SECTION II. STATISTICAL TABLES

Table 1: Strategic Indicator: Forest Area (million hectares/million cum)

	CY 1999	CY2000	CY2001
Country: Indonesia	Previous Calendar Year	Current Calendar Year	Following Calendar Year
Report Year: 2000			
Total Land Area	192.73	192.73	192.73
Total Forest Area	147.3	146.3	146.3
--of which, Commercial	99.5	99.5	99.5
----of commercial, tropical hardwood *)	n/a	n/a	n/a
----of commercial, temperate hardwood	n/a	n/a	n/a
----of commercial, softwood **)	2.6	2.8	2.8
--of forest area, non-commercial	47.7	47.7	47.7
Forest Type			
--Of which, virgin	n/a	n/a	n/a
--Of which, plantation	2.6	2.8	2.8
--Of which, other commercial (regrowth)	n/a	n/a	n/a
Forest Ownership			
--Nationally owned and no commercial access	48.7	48.7	48.7
--Nationally owned, commercial logging permitted	99.5	99.5	99.5
--Other publicly owned land, no commercial access	n/a	n/a	n/a
--Other publicly owned, logging permitted	n/a	n/a	n/a
--privately owned commercial forest ***)	n/a	n/a	n/a
Total Volume of Standing Timber			
--Of which, Commercial Timber	n/a	n/a	n/a
Annual Timber Removal ****) 1/	26.0	26.5	26.5
Annual Timber Growth Rate	1.0 cum/ha	1.0 cum/ha	1.0 cum/ha
Annual Allowable Cut	24.0	24.0	24.0
1/ If removals exceeds growth rate, analyze impact in text.			

Source: various sources, government and industry.
Note: *) open to commercial exploitation, includes concessions.
**) equal to pulp timber estate.
***) all commercial and non-commercial forest areas are nationally owned, rented to private concessions.
****) concession and community forest.

Table 2: Strategic Indicator: Forest Product Tariffs and Taxes (percent)

Country : Indonesia		Tariff		Other		
Report Year: 2000	Product Description 1/	Current Year	Following Year	Import Taxes/Fees	Total Cost of Import	Export Tax
4401	Fuel Wood	0	0	10	10	none
4403	Wood in rough	0	0	10	10	15
4404	Poles/piles	5	5	10	15	15
4405	Wood/Wood Flour	5	5	10	15	none
4406	Rail sleepers	5	5	10	15	15
4407	Lumber, sawn, lengthwise	0-5	0	10	10-15	15
4407.29.110/120/130		5	0	10	15	none
4407.29.210/220/230		5	0	10	15	none
4407.91.100		5	0	10	15	none
4407.99.999		5	5	10	15	none
4408	Veneer/plywood	5	5	10	15	15
4409	Lumber, moulded and rounded	0	0	10	10	none
4410	Particle board	5	5	10	15	none
4411	Fibreboard of wood	5	5	10	15	none
4411.11.000		5	5	10	15	none
4411.19.000		5	5	10	15	none
4411.21.100		5	5	10	15	none
4411.29.000		5	5	10	15	none
4411.31.000		5	5	10	15	none
4411.34.100		5	5	10	15	none
4411.91.000		5	5	10	15	none
4411.99.100		5	5	10	15	none
4412	Veneered panel	10	10	10	20	none
4413	Densified wood	10	10	10	20	none
4414	Wooden frames	10	10	10	20	none
4415	Packing cases/pallets	10	10	10	20	none
4416	Cask/Barrel/Vat/Tub	10	10	10	20	none
4417	Tool/handles	10	10	10	20	none
4417.00.000		10	10	10	20	none
4418	Builders' joinery	10	10	10	20	none
4419	Wooden tableware	10	10	10	20	none
4420	Jewellery cases	10	10	10	20	none
4421	Oth. Wooden articles	0-10	10	10	10-20	none
4421.10.000		10	10	10	20	none
4421.90.100		10	10	10	20	none

4421.90.200		10	10	10	20	none
4421.90.300		10	10	10	20	none
4421.90.400		10	10	10	20	none
4421.90.500		10	10	10	20	none
4421.90.600		10	10	10	20	none
4421.90.700		0	0	10	10	none
4421.90.900		10	10	10	20	none
4422	none	none	none	none	none	none
4423	none	none	none	none	none	none
4424	none	none	none	none	none	none
4425	none	none	none	none	none	none
Pre-fabricated Houses, a subsection under chapter 96						
9406		20	20	10	30	none
1/ Insert additional lines for Commodity tariff identification should tariffs vary within the four-digit designation. Source: Ministry of Finance Decree No. 567/KMK.017/1999 (Dec. 31, 1999); No. 570/KMK.01/1999 (Dec. 31, 1999) and Indonesia Customs Tariff, 2000 (May 2000).						

Table 3: Strategic Indicator: Wood Products Subsidies

Country: Indonesia Year of Report: 2000	Previous Calendar Year	Current Calendar Year	Following Calendar Year
Total Solid Wood Export Subsidy Outlay ($US million)	none	none	none
Is there a ban on the export of logs, lumber, or veneer? If yes, which?	yes	no	no
Are there export taxes (yes/no)? 1/	yes	yes	yes
If yes, for which products? (Identify export tax level in tariff table)	CH. 4403/4404/4406/ 4407/4408	CH. 4403/4404/4406/ 4407/4408	CH. 4403/4404/4406/ 4407/4408
Source(s) of Export Subsidy Information	Ministry of Industry and Trade		
Total Wood Production Subsidy Outlay ($US million)	None	None	None
Are there any programs favoring the development of commercial forestry?	Reforestation Fund & Presidential Instruction (DR & INPRES)		
If yes, Post best estimate of scope (thousands of hectares)	250	250	250
If yes, Post's best estimate of financial outlay ($US million)	None	None	None
Source(s) of Production Subsidy Information	Ministry of Forestry and Plantation		
Does the country support export expansion activities similar to the Cooperator Program?	no	no	no
--Which country markets are targeted?	-	-	-
--Which products are targeted?	-	-	-
Are there significant wood products export expansion activities at the provincial or regional level?	no	no	no
--If yes, identify key players	-	-	-
--If yes, identify key market segments	-	-	-
--If yes, identify key country markets	-	-	-
--If yes, identify key products	-	-	-
--Post's estimate for combined outlay ($US million)	-	-	-
Source(s) of Provincial/Regional Support Information	None	None	None
Are there other wood products export expansion activities? If yes, describe in report.	no	no	no

Table 4: PSD Hardwood Plywood

PSD Table						
Country:	Indonesia				Unit:	1,000 CUM
Commodity:	Hardwood Plywood					
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Production	9000	8500	0	8000	0	8200
Imports	0	0	0	0	0	0
TOTAL SUPPLY	9000	8500	0	8000	0	8200
Exports	8100	7768	0	7300	0	7500
Domestic Consumption	900	732	0	700	0	700
TOTAL DISTRIBUTION	9000	8500	0	8000	0	8200

Source:Apkindo - Based on Official Trade Data, Processed by FAS/Jakarta.

Note: "Old" column represents FAS/Washington’s current data, "New" column represents FAS/Jakarta’s data.

Table 5: Export Trade Matrix: Hardwood Plywood

Export Trade Matrix			
Country: Indonesia		Units: 1,000 CUM	
Commodity:	Hardwood Plywood		
Time period:	Jan-Dec		Jan-Dec
Exports for	1998	Exports for	1999
U.S.	868	U.S.	993
Others		Others	
Japan	1,948	Japan	2,729
Middle East (Trad)	979	Middle East (Trad)	640
PRC	947	Continental (Europe)	639
Taiwan	707	South Korea	564
Continental (Europe)	671	Taiwan	544
Hong Kong	584	PRC	452
Other Mid. East	360	Hong Kong	322
South Korea	341	UK/Ireland	265
UK/Ireland	255	Other Mid. East	219
Singapore	194	Singapore	193
Total for Others	6,986	Total for Others	6,567
Others not listed	190	Others not listed	208
Grand Total	8,044	Grand Total	7,768
Source: Indonesian Wood Panel Association (APKINDO). Note: USA figures including export to Canada and Mexico.			

Table 6: PSD Tropical Hardwood Lumber

PSD Table						
Country:	Indonesia				Unit:	1000 CUM
Commodity:	Tropical Hardwood Lumber					
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Production	6800	6800	0	6600	0	6500
Imports	0	0	0	0	0	0
TOTAL SUPPLY	6800	6800	0	6600	0	6500
Exports	0	0	0	0	0	0
Domestic Consumption	6800	6800	0	6600	0	6500
TOTAL DISTRIBUTION	6800	6800	0	6600	0	6500

Note: "Old" column represents FAS/Washington’s current data, "New" column represents FAS/Jakarta’s data.

Table 7: PSD Tropical Hardwood Logs

PSD Table						
Country:	Indonesia				Unit:	1,000 CUM
Commodity:	Tropical Hardwood Logs					
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Production	23000	26000	0	25500	0	25000
Imports	0	0	0	0	0	0
TOTAL SUPPLY	23000	26000	0	25500	0	25000
Exports	0	0	0	0	0	0
Domestic Consumption	23000	26000	0	25500	0	25000
TOTAL DISTRIBUTION	23000	26000	0	25500	0	25000

Note: "Old" column represents FAS/Washington’s current data, "New" column represents FAS/Jakarta’s data.

No imports and exports of tropical hardwood logs (covers by HS code 4403.31 - 4403.35) reported by the Central Statistics Agency (CBS).

Table 8: Check Prices of Export Commodities (FOB)
Directorate General of International Trade, Ministry of Industry and Trade
No. 125.A/DJPLN/VII/2000 - Dated: July 10, 2000
Effective: July 10 through September 30, 2000

HS Codes	Description of Goods	Check Prices	Unit
		US$	CUM/Ton
I. Logs			
4403.10.291	Ebony wood groups	3,500	CUM
4403.10.291	Sandalwood groups	5,000	Ton
4403	Other Logs under Group of Fancy Wood	500	CUM
4403.10.270	Teak Logs	900	CUM
4403.10.271	Logs under Meranti Group except Bangkirai,	150	CUM
	Merbau		
4403	Mixed Forest Logs except:	90	CUM
	Kempas	130	CUM
	Semantok/Damar Laut species	140	CUM
4403.10.296	Rubber Logs Groups	40	CUM
II. Pulp Materials			
4403.20.100 and	Chip Materials of Natural Forest	5	CUM
4403.99.100			
III. Sawn Timber including Sleepers and Veneer			
Ex.4406	Sandalwood group	8,000	Ton
4407.99.110/120	Ebony wood group	6,000	CUM
4407.99.210/290			
4407.99.300/310			
4407.99.911/992			
4408		6,000	Ton
Ex.4406	Other Fancy Wood	1,000	CUM
4407			
4408			

Ex.4406	Teak Wood	1,000	CUM
4407.29.110			
4407.29.210			
4407.29.310			
4407.29.910			
4408			
Ex.4406	Group of Meranti	450	CUM
4407.26.110			
4407.26.210			
4407.26.310			
4407.26.910			
4408			
Ex.4406	Mixed Forest Wood Groups	300	CUM
4407			
Ex.4406	Rubber Wood	200	CUM
4407.99.140			
4407.99.230			
4408.99.914			
4408			
IV. Split Stems			
4404.20.210	Sandalwood	8,000	Ton
	Ebony	6,000	CUM
4404.20.220	Other Fancy Wood	1,000	CUM
4404.20.220	Teakwood	1,000	CUM
4404.20.230/240	Meranti Group	400	CUM
4404.20.240	Mixed Forest Wood	275	CUM
4404.20.230	Rubber Wood	200	CUM
V. Wood Poles, including Electricity/Telephone Poles			
4404.20.210	Sandalwood group	8,000	Ton
4404.20.210	Ebony wood group	6,000	CUM
4404.20.220	Other Fancy Wood	1,000	CUM
4404.20.220	Teakwood	1,000	CUM

4404.20.230/240	Meranti Group	200	CUM
4404.20.240	Mixed Forest Wood	160	CUM
4404.20.230	Rubber Wood	120	CUM
Source: Directorate of Agriculture Product Export, Ministry of Industry and Trade.			

Table 9: Production of Logs by Type of Logs (in CUM)

Type of Logs		1996	1997	1998*)
Local Name	Latin Name			
Agathis	Agathis	63,134	105,446	144,500
Bakau	Rhizopora spp.	554,279	557,937	629,927
Bangkirai	Shorea lalvifolia	79,602	141,629	110,336
Benuang	Octomeles sumatrana Miq	106,681	83,482	65,832
Damar	Shorea spp.	56,411	30,096	24,002
Duabanga	Duabanga molucana BI	82,137	87,809	82,687
Indah	Fancy Wood	371,391	235,430	262,839
Jelutung	Dyera spp	145,798	125,189	148,819
Kapur	Dryobalanops spp.	588,465	555,502	517,954
Kruing	Dipterocarpus spp.	1,375,126	1,465,828	1,492,486
Meranti	Shorea spp.	9,892,463	11,371,366	11,759,043
Mersawa	Anisoptera spp.	116,956	197,151	190,782
Nyatoh	Palaquium spp.	153,310	183,159	198,130
Palapi	Terrictia spp.	99,811	142,856	139,926
Ramin	Gonystylus bancanus Kurz	601,130	489,289	457,231
Resak	Vatica spp	106,743	50,023	67,765
Other		2,673,707	2,957,357	2,917,208
Mixed Forest Wood		4,107,707	5,170,878	5,340,695
Indonesia TOTAL		21,174,851	23,950,427	24,550,162
Source: Central Statistics Agency (BPS).				
Note: *) Estimates Figure				

Table 10: Reference Prices for the Calculation of Resources Royalty Provision (PSDH)
Decree of the Minister of Industry and Trade
No. 268/MPP/Kep/7/2000 - Dated: July 11, 2000
Effective from July 1, 2000 through December 31, 2000

Description of Products	Reference Price (Rupiah)	Unit CUM/Ton
I. Logs		
Logs with a diameter of 30 cm & above		
a. The meranti (timber tree) and the mixed forest wood		
1. Timber originating from Region I		
(Sumatra, Kalimantan, Sulawesi, Maluku)		
a. Meranti group	640,000	CUM
b. Mixed Forest group	360,000	CUM
2. Timber originating from Region II		
(Irian Jaya, Nusa Tenggara, Bali, East Timor)		
a. Meranti group	530,000	CUM
b. Mixed Forest group	265,000	CUM
b. Other than the meranti & mixed forest groups		
1. The fancy wood group, incl. Sonokeling, Ramin & Ulin	905,000	CUM
2. The Torem wood (Region I)	360,000	CUM
3. The Torem wood (Region II)	265,000	CUM
c. Groups of other types of timber		
1. Groups of other types of timber (Region I)	640,000	CUM
[Mentaos (Wrightia javanica DC), Kisereh (Cinnamomum		
parthenoxylon), Perupuk (Lophopetalum spp),		
Giam (Cotylelobium spp), Balangeran (Shore balangeran		
Burck), Kulim (Scorodocarpus bprmeemsos Becc)]		
2. Groups of other types of timber (Region II)	530,000	CUM
[Mentaos (Wrightia javanica DC), Kisereh (Cinnamomum		
parthenoxylon), Perupuk (Lophopetalum spp),		
Giam (Cotylelobium spp), Balangeran (Shore balangeran		
Burck), Kulim (Scorodocarpus bprmeemsos Becc)]		

II. Logs of small diameters (not applicable to groups 1.b.1. and 1.c.)		
a. Logs with diameter < 30 cm	204,000	Ton
b. Palisades	10,200	Piece
c. Fish-trapping stakes and piles	32,200	Piece
d. Beams for flat-car rails	127,200	Piece
e. Charcoal of:		
- Mangrove and Meranti	320,000	Ton
- Mixed Forest wood	150,800	Ton
f. Fire wood	15,000	SM
g. Teakwood stump	278,800	Ton
III. Logging waste (not applicable to no. 2 & no. 3).	204,000	Ton
IV. Chip raw materials (BBS) shall be logs with small	204,000	CUM
diameters which shall be processed into chips		
V. Other Assortment Wood		
1. Yellow wood	494,000	Ton
2. Ebony wood	6,000,000	Ton
3. Teak wood:		
- Diameter of 30 cm and up	764,000	CUM
- Diameter of 20 cm -- 29 cm	485,000	CUM
- Diameter of <19 cm	192,000	CUM
4. Mangrove wood	151,000	Ton
5. Pine wood	127,200	Ton
6. Yellow sandalwood:		
- Part of yellow sandalwood with hard core in all shape	7,000,000	Ton
- softwood (between bark and xylem) of yellow sandalwood	700,000	Ton
in all shapes		
VI. Wood from timber estate/plantation (HTI)		
a. Pine	42,400	Ton
b. Acacia	27,800	Ton
c. Balsa	17,000	Ton
d. Eucalypthus	27,800	Ton
e. Gmelina arborca	27,000	Ton

f. Rubber	42,400	Ton
g. Sengon	17,000	Ton
VII. Timber from state-owned forestry company		
Perum Perhutani and Yogyakarta special region		
a. Teakwood and Sonokeling logs		
1. Diameters of 30 cm and above	744,400	CUM
2. Diameter of 20 cm -- 29 cm	485,000	CUM
3. Diameter of <19 cm	192,000	CUM
b. Fancy forest logs (Sonobrite, Mahogany)		
1. Diameters of 30 cm and above	384,000	CUM
2. Diameter of 20 cm -- 29 cm	134,000	CUM
3. Diameter of <19 cm	81,400	CUM
c. Logs of the types of pine, resin, sengon, balsa		
Eucalypthus, Jabon, Acacia mangium, rubber and		
Gmelina Arborea		
1. Diameters of 30 cm and above	134,440	CUM
2. Diameter of 20 cm -- 29 cm	118,000	CUM
3. Diameter of <19 cm	80,000	CUM
d. Mixed forest logs		
1. Diameters of 30 cm and above	118,000	CUM
2. Diameter of 20 cm -- 29 cm	80,000	CUM
3. Diameter of <19 cm	58,500	CUM
e. Rasamala	127,200	CUM

Note: - Exchange rates used for payments of Import Duty, Value Added Tax (VAT), Export Tax, Sales Tax, and Income Tax are revised weekly according to Minister of Finance Decrees.

- Exchange rate for July 10 through July 16, 2000 (Decree No. 280/KMK.014/2000 dated July 10, 2000) Rp. 8,950/US$1.

- Exchange rate for July 24 through July 30, 2000 (Decree No. 294/KMK.014/2000 dated July 24, 2000) Rp. 8,845/US$1.

Table 11: Reforestation Fee
Government Regulation No. 92/1999 - Dated: October 13, 1999
(Currently Valid until A New Regulation is Announced)

No.	Description	Unit	Tariff/Unit US$
A.	Kalimantan and Maluku Region		
	- Meranti Group	CUM	16
	- Mixed Forest Group	CUM	13
B.	Sumatera and Sulawesi Region		
	- Meranti Group	CUM	14
	- Mixed Forest Group	CUM	12
C.	Irian Jaya and Nusa Tenggara Region		
	- Meranti Group	CUM	13
	- Mixed Forest Group	CUM	10.5
D.	All (Indonesia) Region		
	1. Ebony wood	Ton	20
	2. Teak wood	CUM	16
	3. Fancy wood	CUM	18
	4. Sandalwood	Ton	18
	5. Pulp wood (Bahan Baku Serpih or BBS)	Ton	2
	6. Logging waste and other specific wood products	CUM	2
E.	Pulp wood processed in regions that has no	CUM	0
	pulp and paper mills		
F.	Pulp wood used for join research by PT. Inhutani	CUM	0
	I,II,III,IV, and V with intermediate wood chips		
	producers using portable machinaries		
G.	Logs donated for natural disaster victims and other	CUM	0
	social affairs		

Table 12: Exchange Rate Table

Exchange Rate (Rp./1US$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1998	13513	9377	8740	8211	10767	15160	13850	11700	11314	9142	7755	8100
1999	9419	8992	8778	8632	8179	6750	6989	7736	8571	6949	7439	7161
2000	7414	7517	7590	7945	8550	8735	8900					

Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.
Note: - July 2000 exchange rate is quoted for July 24, 2000.
- BPS data available up to February 2000.

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

Production

Forest Situation

From a total land area of 192.7 million hectares, Indonesia has 148.3 million hectares of forested area. Of the forested area, around 48.8 million hectares (32.9 %) are classified as fully protected forests prohibited from logging activities. Commercial enterprises are carried out on the designated 99.5 million hectares (67.1% of forested land) of production forest. Total volume of standing timber is not available, but annual timber removal is estimated at as high as 56.5 million cubic meters in 2000 (from concession, community forest and illegal cuts) against 24.0 million cubic meters of annual allowable cut.

The three major log producing areas are: Kalimantan (13.5 million cubic meters); Sumatra (7.4 million cubic meters); and Papua - formerly known as Irian Jaya (2.7 million cubic meters). Logging activities are conducted based on an annual activity plan (RKT-Rencana Kerja Tahunan) assessed and approved by the GOI Ministry of Forestry and Plantation, and supposed to follow selective cutting and replanting procedures.

Several factors have been targeted as the cause of declining log production, including: illegal logging, forest fires, remoteness of logging areas and weather sensitive problems in transporting the logs to the processing facilities. In addition, social unrest (particularly in Maluku and Aceh) combined with enforcement of forestry regulations on concessionaires have also reduced log production and plywood production. Severe forest fires in 1997/98 damaged a substantial numbers of trees and lowered log quality significantly. Logging sites are now more remote and harder to reach. Policies and regulations in the Indonesian forestry sector are also in place to promote local wood industries and guarantee environmentally sound forest exploration. Enforcement remains difficult. Down- sizing of forest concessions by limiting forest concession rights' (HPH=Hak Pengusahaan Hutan) area of exploration and transferring forest management to local people, cooperatives and/or small-scale industries is also a stated goal with the aim of giving opportunities to more people to manage the forest.

Forest concession rights (HPH) have been granted for commercial logging within the production forests. Currently, there are around 300 HPHs actively operating. Of those only six are state companies (Inhutani I-V and Perhutani) managing around 6.2 million hectares forest concessions and some eighty companies are in joint operation between private - state companies and/or private companies - cooperatives and/or state companies - cooperatives.

The GOI has established several measures to control illegal logging, however, many factors have thwarted its success. To name a few are lack of security personnel, farmers slash burning forest for food crop planting and land clearing for plantations, not to mention the strong motivation that illegal logging profits provide and the ability of poachers to skirt regulations by offering bribes. The illegal cut in Indonesia in 2000 has been estimated as high as 30 million cubic meters - quite significant given that Indonesia's official annual allowable cut is only 24 million cubic meters. The sizable illegal cutting is generally believed to be tropical hardwoods from existing concessions as well as protected forests. Some of the illegal logs are marketed to local wood processors (particularly companies that do not have concessions) and some are smuggled across the border for transhipment to other countries. Industry sources explain that much of the illegal trade in logs was exports to China's plywood industry in order to meet demand from China's export markets.

Forest Outlook

The official annual allowable log harvest remains at 24 million cubic meters, however, logs harvested from community forest and timber estates (which can contribute around 6 million cubic meters per year) are adding to the supply. Volume of log supply is weather sensitive which can be tight during peak rainy and dry seasons. Logging activities have become more difficult to carry out as logging sites become more remote and supervision by related government agencies is stricter. Export taxes have reportedly encouraged sizeable illegal log exports to neighboring Asian markets such as China, Japan, and Korea.

The deforestation rate for Indonesia's tropical rain forest is reportedly over one million hectares per year due to, among other factors, natural disasters (forest fires), illegal logging, and land conversion to estate plantations. A reforestation program is in effect to protect the sustainability of the forest and to ensure the environmental soundness of forest exploration. The GOI supports the implementation of the program by granting financial aid from the reforestation fund (DR=Dana Reboisasi) and forest resource provision fund (PSDH-Provisi Sumber Daya Hutan) accrued from fees assessed on forest concessionaires' logging activities.

Solid Wood Products Situation/Outlook

Plywood Situation/Outlook

Scarcity of logs due to forest fires and more remote logging areas, political and civil unrest in several areas have hampered industry activities and decreased plywood production. With an annual production of around 8.0 million cubic meters in 2000 and 8.2 million cubic meters in 2001, Indonesia's plywood industry will continue to be the world's largest tropical hardwood plywood producer and exporter. However, exports are declining due to lower production, competition with other plywood producing countries (such as China), and a flagging economic situation in export market countries. With the rupiah weakening again since July 2000, the industry is optimistic that U.S. dollar denomited returns will increase next year. To support production as well as exports of fancy plywood and higher quality furniture the industry continues to import temperate hardwood logs and veneer (mainly oak) from the United States and others. According to USDA trade data, the volume of U.S. hardwood veneer exports to Indonesia during January-May of 2000 was 2.7 million square meters valued at US$ 3.3 million up from 1.7 million square meters at US$ 2.2 million in 1999 (January-May). Total value of U.S. hardwood veneer exports in 1999 up by more than 100% from US$ 3.0 million in 1998 to US$6.2 million.

Domestic consumption of plywood is down to 700,000 cubic meters in 2000 and is forecast to remain the same in 2001 due to the continued weak economic conditions in Indonesia which slows down building construction activities. Exports are also estimated down to 7.3 million cubic meters in 2000 as Indonesia faces competition from other exporting countries and tight economic conditions in export market countries. However, in 2001 exports are forecast to increase by around 3 percent to 7.5 million cubic meters. Industry contacts also report that unfavorable economic conditions in major buyer countries lead plywood prices to decline from an average export price of around US$ 348/cum last year to around US$ 310/cum in 2000. Stronger dollar against rupiah and competition from other exporting countries have also encouraged buyers to depress Indonesian plywood prices. To compete with other countries in price and qualities, plywood and other local wood processing industries are improving their efficiency in utilizing logs and seeking new markets for their higher value added products such as secondary processed or fancy plywood, particle/block board, and furniture.

Log Situation/Outlook

Total log production includes logs harvested from production forests, conversion forests, and timber estates or HTI. The faster growing species from HTI are expected to increasingly contribute to Indonesia's overall log production but it mainly goes to the pulp and paper industry. Unproductive rubber trees and several non-commercial wood species are also adding to the total.

Following the recommendation from the IMF, the log export ban was lifted in 1998. However, export taxes (please refer to Table 2 and Table 8) and the increasing trend of domestic log prices market (currently Rp. 500,000 to Rp. 800,000/cubic meter or US$ 53 to US$ 85/cubic meter at the current exchange rate) made exporting logs less profitable. Under pressure from the local industry which complains of insufficient supply of logs, the GOI has proposed to the IMF that - at least temporarily - log exports be banned. The GOI claims that with the rebanning of log exports, Indonesia will be able to protect the forest from over logging while it can also guarantee sufficient supply of logs for the local wood industry. However, the potential for higher illegal log exports is also a consideration. Others fear a ban will artificially support inefficient mills in Indonesia which should be forced to close by competitive international market forces. No hardwood log (HS. 4403.31 - 4403.35) exports were reported from Indonesia in 1999. From an estimated 30 million cubic meters of the possible illegal logs, a significant percentage is exported.

Trade

Overview

A list of "Check Prices" (periodically reviewed by the GOI) has been announced, effective July 10 through September 30, 2000 (please refer to Table 8). The check prices are used to determine export taxes on logs (also forest products) and intercept illegal exports. However, clearly it is not effectively stopping the overflow of logs leaving the country. Industry sources indicate that China may be the main destination for illegal log exports since their plywood production has increased substantially and unpredictably. In order to generate higher revenue while continuing to explore and preserve the forest according to the sustainable forest management dictate, the government is encouraging the industry to produce exportable higher valued wood products such as fancy plywood, moulding and furniture and also develop new markets. Official trade data on log exports does not cover tropical hardwood logs but fast growing and non-commercial wood species (temperate and soft wood species). However, it is widely recognized that smuggling of illegal tropical hardwood logs is occurring at a significant rate.

Outlook

Plywood exports for 2000 are estimated at 7.3 million cubic meters, down 6 percent from 7.8 million cubic meters in 1999. As economic conditions in the importing countries are improving, exports are forecast to increase to 7.5 million cubic meters in 2001. On the other hand, inconsiderable improvements on property sectors and competition from other construction material such as asbestos and gypsum, leads domestic consumption to remain flat at 700,000 cubic meters in 2000 and 2001, compared to 732,000 cubic meters in 1998. Improvement in the country's economic conditions are expected to increase consumption of wood products. Plywood prices (determined by the size and thickness) are declining to around US$ 310 per cubic meter (CNF), down from US$ 348.2 per cubic meter in 1999. However, industry sources are optimistic that prices will pick up in the next few years.

Indonesian official trade statistics indicate no exports of tropical hardwood lumber under Harmonized System Code (HS) 4407.21--4407.23. With respect to softwood, trade industry data shows increasing exports of sawn timber from about 196 thousand cubic meters in 1998 (US$ 164 thousand) to 413 thousand cubic meters in 1999 (US$ 296 thousand). Log and lumber prices are varied, depending on the wood species, quality, dimension and availability. The current average price of commercial logs in the domestic market is reportedly ranging between Rp. 500,000 -- 800,000 per cubic meter or US$ 53 to US$ 85/cubic meter at the current exchange rate, it is in an increasing trend due to the tightening supply. Depending on the wood species, quality, location of the market and the dimension the average lumber prices in the domestic market is between US$ 90 to US$ 100 per cubic meter.

U.S. Exports

With the strategy of producing and exporting higher value wood products, it is expected that Indonesia will continue to require higher quality logs and/or veneer such as U.S. temperate hardwood products. According to U.S. Bureau of Census trade data, total U.S. forest products exports to Indonesia (logs, lumber, plywood and veneer) during 1999 reached US$ 38.5 million, the highest export level since at least 1970. Of the total, U.S. log exports were US$ 13.6 million. Total forest product exports during January-May 2000 were recorded at US$ 23.2 million, increased from US$ 18.8 million in 1998 (January-May). U.S. hardwood log (including chips) exports in 1999 were US$ 13.6 million, down 26.9 percent from the 1998 level of US$ 18.6 million. Hardwood lumber exports from the U.S. in 1999 were US$ 11.2 million (a record high since 1970), an increase of 37 percent from 1998 (US$ 8.2 million). U.S. hardwood lumber exports for January-May 2000 were US$ 5.7

million. Panel product (including plywood) exports from the U.S. were US$ 6.6 million in 1999 (a record high since at least 1970), an increase of 78 percent from 1998 (US$ 3.7 million). U.S. hardwood veneer exports for January-May 2000 were US$ 3.4 million compared to US$ 2.3 million during January-May 1999. Economic difficulties (weakening rupiah against US$) and political tensions in Indonesia will curb U.S. exports of forest products to Indonesia for the rest of this year.

Marketing

The wood industry in Indonesia is expected to continue generating major revenue by developing new markets and exporting value added wood products such as fancy plywood and furniture. These products require imports of different kinds of hardwood (temperate) logs/veneer including those from the United States. Introduction and/or familiarity with American temperate hardwoods have been carried out through updating potential users with the availability of USDA export credit guarantee program GSM-102 for wood products (excluding logs) and pulp. Some American lumber companies have been developing markets in Indonesia through local companies. The American Hardwood Export Council (AHEC) trade servicing and promotion of U.S. hardwood characteristics, availability, and quality have also been useful to broaden the market.

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