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Solid Wood Products

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Report Highlights:

The state of Indonesia's wood industry continues to decline and forest resources to diminish, despite attempts at protection and better management. Total annual allowable logging has been reduced to 5.74 million CUM for 2004. Log exports are prohibited; however, illegal trading of logs persists. Plywood exports continue to decline. Opportunities exist for U.S. hardwood exports.

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

Wood product output continues to decline due to the decline in forest resources, stricter enforcement of regulations, and the overall erosion in the industry's competitiveness. The industry faces lower demand, tighter quality specifications, and reduced price competitiveness.

The annual allowable cutting of logs is set at 5.74 million cubic meters and will decline every year in the future. However, it is questionable whether the stated policy can significantly curb illegal logging and exports. Stricter enforcement is essential to stop unlawful practices. Having failed at domestic enforcement, the GOI has requested neighboring countries to prohibit imports of illegal logs from Indonesia. Despite these efforts, the problems of illegal logging and deforestation are expected to persist.

Precise numbers on the volume of illegal logging and illegal trading of logs are unavailable and estimates vary widely. However, some estimates suggest that up to 68 million CUM is cut illegally, with approximately 10 million CUM of logs illegally shipped out of the country. The loss associated with this practice is approximately \$5.7 billion per annum (\$4.08 billion losses from the price of logs and US\$ 1.63 losses from the unpaid taxes and fees). Annual forest deterioration in all forest categories (production forest, conservation, conversion, and community forest) resulting from forest fire, slash/burn logging practices, and shifting cultivation, is also vast, with estimates ranging from 1.5 million ha up to 4.1 million ha.

Based on the needs of all type of wood-based industries (wood working, plywood, furniture, pulp and paper), Indonesia's wood products industry requires approximately 37 million CUM per annum (mostly processed into plywood and wood working), and must import around 2.0 million CUM. This creates good prospects for American temperate hardwood logs and/or veneer, which are already being used by manufacturers in Indonesia. American oak, cherry and birch are the most popular species for housing/office interior, furniture and handicraft. Demand for high quality interior and furniture is also increasing in line with recovering economic conditions and growth in the local housing/property industry.

Indonesian wood products have become less competitive in the international market due to increasing costs of production and the negative image associated with the Indonesian wood industry. High transportation costs (as logging operations increasingly must locate to remote areas where infrastructure is very limited) and various (official and unofficial) levies are among the leading factors that have increased the costs of production. Many of the wood product manufacturing sub-sectors still have over capacity, and investments to increase capacity or enhance efficiency continue to be rare.

SECTION II. STATISTICAL TABLES

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

	CY 2003	CY2004	CY2005
Country: Indonesia	Previous	Current	Following
Report Year: 2004	Calendar Year	Calendar Year	Calendar Year
Total Land Area	192.73	192.73	192.7
Total Forest Area	146.3	146.3	146.3
--of which, Commercial	99.5	99.5	99.5
----of commercial, tropical hardwood			
----of commercial, temperate hardwood			
----of commercial, softwood	2.8	2.8	2.8
--of forest area, non-commercial	47.7	47.7	47.7
Forest Type			
--Of which, virgin			
--Of which, plantation	2.8	2.8	2.8
--Of which, other commercial (regrowth)			
Forest Ownership			
--Nationally owned and no commercial access permitted	48.7	48.7	48.7
access	99.5	99.5	99.5
--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/	n/a	n/a	n/a
Annual Timber Growth Rate			
Annual Allowable Cut	6.9	5.7	5.4
<p>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. private concessions. ****) concession and community forest.</p>			

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

Country: Indonesia Report Year: 2004	Product Description 1/	Tariff Current Year	Tariff Following Year	Other 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	none
4404	Poles/piles	5	5	10	15	none
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
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
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
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
Pre-fabricated Houses, a subsection under chapter 96						
9406		15	15	10	25	none

Source: Various sources, including Minister of Finance Decrees and Indonesian Customs and Tariff 2004.

Table 3: Strategic Indicator: Wood Products Subsidies

Country: Indonesia Year of Report: 2004	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, for logs	yes, for logs	yes, for logs
Are there export taxes (yes/no)? 1/	yes	yes	yes
If yes, for which products? (Identify export tax level in tariff table)	CH. 4406/4407/4408	CH. 4406/4407/4408	CH. 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?	no	no	no
If yes, Post's best estimate of scope (thousands of hectares)	None	None	None
If yes, Post's best estimate of financial outlay (\$US million)	None	None	None
Source(s) of Production Subsidy Information	Ministry of Forestry		
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
expansion activities? If yes, describe in report.	no	no	no

Source: Various sources.

Table 4: PSD Hardwood Plywood

PSD Table

Country Commodity	Indonesia Hardwood Plywood					
	2003 [Old]	Revised [New]	2004 [Old]	Estimate [New]	2005 [Old]	Forecast [New]
Market Year Begin	01/2003		01/2004		01/2005	
Production	7200	6740	0	6400	0	6100
Imports	0	0	0	0	0	0
TOTAL SUPPLY	7200	6740	0	6400	0	6100
Exports	6300	5840	0	5500	0	5200
Domestic Consumption	900	900	0	900	0	900
TOTAL DISTRIBUTION	7200	6740	0	6400	0	6100

Unit: 1,000 CUM

Note: "Old" data from USDA Washington, D.C.
 "New" data from FAS/Jakarta.

Source: Apkindo - Based on Official Trade Data, Processed by FAS/Jakarta.
 Unit: in 1,000 Cubic Meters (1,000 CUM).

Table 5: Export Trade Matrix: Hardwood Plywood

Export Trade Matrix

Country	Indonesia		Unit: 1,000 CUM
Commodity	Hardwood Plywood		
Time Period	Jan-Dec 2002		Jan-Dec 2003
Exports for:			
U.S.	763	U.S.	543
Others		Others	
Japan	2564	Japan	1845
Middle East (Trad.)	765	Middle East (Trad.)	832
South Korea	645	South Korea	613
Continental	424	PRC	458
PRC	374	Taiwan	409
Taiwan	362	Continental	363
UK/Ireland	231	Other Middle East	258
Other Middle East	166	UK/Ireland	135
Hong Kong	148	Other ASEAN Countries	105
Singapore	129	Singapore	103
Total for Others	5808	Total for Others	5121
Others not Listed	182	Others not Listed	173
Grand Total	6753	Grand Total	5837

Source: Indonesian Wood Panel Association (APKINDO).

Table 6: PSD Tropical Hardwood Lumber

PSD Table

Country Commodity	Indonesia Tropical Hardwood Lumber					
	2003 [Old]	Revised [New]	2004 [Old]	Estimate [New]	2005 [Old]	Forecast [New]
Market Year Begin	01/2003			01/2004		01/2005
Production	6250	6250	0	6100	0	6100
Imports	0	0	0	0	0	0
TOTAL SUPPLY	6250	6250	0	6100	0	6100
Exports	0	0	0	0	0	0
Domestic Consumption	6250	6250	0	6100	0	6100
TOTAL DISTRIBUTION	6250	6250	0	6100	0	6100

Unit: 1,000 CUM

Note: "Old" data from USDA Washington, D.C.

"New" data from FAS/Jakarta.

Unit: in 1,000 cubic meters (1,000 CUM).

Table 7: PSD Tropical Hardwood Logs

PSD Table

Country Commodity	Indonesia Tropical Hardwood Logs					
	2003 [Old]	Revised [New]	2004 [Old]	Estimate [New]	2005 [Old]	Forecast [New]
		01/2003		01/2004		01/2005
Production	25000	26000	0	25000	0	25000
Imports	0	0	0	0	0	0
TOTAL SUPPLY	25000	26000	0	25000	0	25000
Exports	0	0	0	0	0	0
Domestic Consumption	25000	26000	0	25000	0	25000
TOTAL DISTRIBUTION	25000	26000	0	25000	0	25000

Unit: 1,000 CUM

Note: "Old" data from USDA Washington, D.C.
"New" data from FAS/Jakarta.

Unit: in 1,000 cubic meters (1,000 CUM).

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)
 Effective from April 1 through June 31, 2004
 Announcement of the Director General of International Trade
 No. 588/DAGLU/III/2004 - Dated March 31, 2004

HS Codes	Description of Goods	Check Prices	Unit
		US\$	CUM/Ton
I. Sawn Timber including Sleepers and Veneer			
4406	1. Railway or tramway sleepers (cross-ties) of wood		
	a. Group of Sandalwood	8,000.00	Ton
	b. Group of Ebony wood	4,000.00	CUM
	c. Group of other fancy wood	4,000.00	CUM
	d. Group of teak wood	1,000.00	CUM
	e. Group of Meranti	450.00	CUM
	f. Group of mixed forest group	450.00	CUM
	g. Group of rubber wood	200.00	CUM
4407	2. Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6 mm		
	a. Group of Sandalwood	8,000.00	Ton
	b. Group of Ebony wood	4,000.00	CUM
	c. Group of other fancy wood	4,000.00	CUM
	d. Group of teak wood	1,000.00	CUM
	e. Group of Meranti	450.00	CUM
	f. Group of mixed forest group	450.00	CUM
	g. Group of rubber wood	200.00	CUM
4408	3. Sheets for veneering (including those obtained slicing laminated wood), for plywood or for other similar laminated wood and other wood, sawn lengthwise, sliced or peeled, whether or not planned, sanded, spliced or end-jointed, of a thickness not exceeding 6 mm		
	a. Group of Sandalwood	8,000.00	Ton
	b. Group of Ebony wood	4,000.00	CUM
	c. Group of other fancy wood	4,000.00	CUM
	d. Group of teak wood	1,000.00	CUM
	e. Group of Meranti	450.00	CUM
	f. Group of mixed forest group	450.00	CUM
	g. Group of rubber wood	200.00	CUM

Source: Directorate of Agriculture Product Export, Ministry of Industry and Trade.

Note: The decree will remain valid until further notice or new decree is announced.

Table 9: Production of Logs by Type of Logs (in CUM)
(1999 - 2001)

Type of Logs		1999	2000	2001
Local Name	Latin Name			
Agathis	Agathis	47,480	34,038	30,012
Bakau	Rhizophora spp.	419,220	319,824	277,514
Bangkirai	Shorea lalvifolia	87,646	67,900	59,909
Benuang	Octomeles sumatrana Miq	29,379	13,202	18,065
Damar	Shorea spp.	10,460	9,299	14,184
Duabanga	Duabanga molucana Bl	53,067	99,971	77,477
Indah	Fancy Wood	175,212	178,262	105,643
Jelutung	Dyera spp	61,972	48,975	53,888
Kapur	Dryobalanops spp.	326,614	471,958	314,196
Kruing	Dipterocarpus spp.	746,037	588,799	540,696
Meranti	Shorea spp.	6,903,600	6,079,470	5,182,116
Mersawa	Anisoptera spp.	59,476	37,947	39,235
Nyatoh	Palaquium spp.	73,166	61,695	43,893
Palapi	Terrictia spp.	25,079	18,292	12,012
Ramin	Gonystylus bancanus Kurz	211,995	131,307	128,656
Resak	Vatica spp	16,019	19,869	24,156
Other		1,847,589	1,561,829	1,168,166
Mixed Forest Wood		4,104,283	3,317,171	2,870,370
Indonesia		15,198,294	13,059,808	10,960,188

Source: Central Statistics Agency (BPS).

Note: Figure for 2001 is estimates.

Table 10: Production of Logs by Province (in CUM)
(2000 - 2002)

No.	Province	2000*)	2001	2002
1	Sp.Terr. of Aceh	34,800	38,346	0
2	North Sumatra	732,488	750,497	355,168
3	West Sumatra	28,811	8,763	186,182
4	Riau	2,258,163	1,410,858	2,056,535
5	Jambi	724,005	2,036,250	123,153
6	Bengkulu	14,556	0	0
7	South Sumatra	1,979,720	1,866,037	1,151,321
8	Lampung	27,500	0	0
9	West Java	0	0	0
10	Sp.Terr. of Jakarta	0	0	0
11	Central Java	0	0	0
12	Sp.Terr. of Yogyakarta	130,988	0	0
13	East Java	0	0	0
14	Bali	34	0	0
15	West Nusa Tenggara	58,429	47,441	10,594
16	East Nusa Tenggara	0	0	0
17	West Kalimantan	244,477	120,901	86,628
18	Central Kalimantan	1,281,432	593,499	602,676
19	South Kalimantan	236,198	52,524	117,734
20	East Kalimantan	3,359,020	970,054	1,061,589
21	North Sulawesi	51,514	26,945	7,039
22	Gorontalo	-	-	2,826
23	Central Sulawesi	139,219	58,318	91,923
24	South Sulawesi	159,561	93,368	47,101
25	S.E. Sulawesi	5,426	0	0
26	Maluku	81,224	0	52,169
27	North Maluku	-	-	12,066
28	Papua	739,674	522,275	612,572
	St. Enterpr. Perhutani	1,511,001	1,455,403	1,559,026
	TOTAL	13,798,240	10,051,481	8,136,303

Source: Forestry Statistics of Indonesia, 2002.
Directorate General of Forest Production Development,
Ministry of Forestry.

Note: *) April - December 2000.

The figures are presented to show the distribution of the industry and do not necessarily compatible with the PSD data.

Table 11: Production of Lumber by Province (in CUM)
(2000 - 2002)

No.	Province	2000*)	2001	2002
1	Sp.Terr. of Aceh	91,812	29,015	0
2	North Sumatra	74,207	23,187	37,432
3	West Sumatra	9,120	5,098	0
4	Riau	195,880	2,420	0
5	Jambi	188,271	141,543	0
6	Bengkulu	2,090	0	0
7	South Sumatra	223,560	171,001	50,490
8	Lampung	292	0	0
9	West Java	0	0	0
10	Sp.Terr. of Jakarta	0	0	0
11	Central Java	0	0	4,707
12	Sp.Terr. of Yogyakarta	0	0	0
13	East Java	0	0	7,905
14	Bali	0	276	222
15	West Nusa Tenggara	7,794	8,986	3,964
16	East Nusa Tenggara	269	3,137	0
17	West Kalimantan	137,627	36,046	0
18	Central Kalimantan	219,116	54,210	3,898
19	South Kalimantan	104,194	37,492	55,607
20	East Kalimantan	346,885	129,298	206,097
21	North Sulawesi	2,950	0	279
22	Gorontalo	-	-	5,121
23	Central Sulawesi	22,755	0	21,877
24	South Sulawesi	0	9,451	12,457
25	S.E. Sulawesi	1,302	5,797	984
26	Maluku	5,773	888	0
27	Papua	1,155,647	17,024	5,683
	TOTAL	2,789,543	674,868	416,725

Source: Forestry Statistics of Indonesia, 2002.
Directorate General of Forest Production Development,
Ministry of Forestry.

Note: *) April-December 2000.

The figures are presented to show the distribution of the industry and do not necessarily compatible with the PSD data.

Table 12: Production of Plywood by Province (in CUM)
(2000 - 2002)

No.	Province	2000*)	2001	2002
1	Sp.Terr. of Aceh	37,587	0	0
2	North Sumatra	242,093	104,458	110,172
3	West Sumatra	54,504	50,687	0
4	Riau	240,594	0	0
5	Jambi	428,637	528,975	0
6	Bengkulu	0	0	0
7	South Sumatra	88,241	86,280	1,246
8	Lampung	3,937	0	0
9	West Java	0	0	0
10	Sp.Terr. of Jakarta	0	0	0
11	Central Java	0	0	0
12	Sp.Terr. of Yogyakarta	0	0	0
13	East Java	0	0	0
14	Bali	0	0	0
15	West Nusa Tenggara	0	1,174	0
16	East Nusa Tenggara	0	0	0
17	West Kalimantan	626,595	147,121	0
18	Central Kalimantan	533,505	93,392	151,187
19	South Kalimantan	1,040,528	151,769	800,056
20	East Kalimantan	1,005,466	756,302	80,622
21	North Sulawesi	307	0	0
22	Central Sulawesi	0	0	0
23	South Sulawesi	0	80,205	6,375
24	S.E. Sulawesi	0	0	0
25	Maluku	22,090	4,248	0
26	Papua	118,650	96,873	52,382
	TOTAL	4,442,735	2,101,485	1,202,040

Source: Forestry Statistics of Indonesia, 2002.
Directorate General of Forest Production Development,
Ministry of Forestry.

Note: *) April - December 2000.

The figures are presented to show the distribution of the industry and do not necessarily compatible with the PSD data.

Table 13: Reference Prices for the Calculation of Resources Royalty Provision (PSDH)

Decree of the Minister of Industry and Trade
Effective from January 1, 2004 through June 1, 2004

Description of Products	Reference Price (Rupiah)	Unit CUM/Ton
I. Logs		
a) The meranti (timber tree) and the mixed forest wood		
1. Timber originating from Region I (Sumatra, Kalimantan, Sulawesi, Maluku)		
a. Meranti group	500,000.00	CUM
b. Mixed Forest group	300,000.00	CUM
2. Timber originating from Region II (Irian Jaya, Nusa Tenggara, Bali)		
a. Meranti group	414,000.00	CUM
b. Mixed Forest group	221,000.00	CUM
b) Other than the meranti & mixed forest groups		
1. The fancy wood group, incl. Sonokeling (<i>Dalbergia latifolia</i>), Ramin (<i>Gonystylus bancanus</i>), Kulim (<i>Soorodocarpus borneensis</i>)	905,000.00	CUM
2. The Torem wood (Region I)	360,000.00	CUM
3. The Torem wood (Region II)	265,000.00	CUM
c) Groups of other types of timber		
1. Groups of other types of timber (Region I) [Mentaos (<i>Wrightia javanica</i> DC), Kisereh (<i>Cinnamomum parthenoxylon</i>), Perupuk (<i>Lophopetalum</i> spp), Giam (<i>Cotylelobium</i> spp), Balangeran (<i>Shore balangeran</i> Burck), Kulim (<i>Scorodocarpus bprmeemsos</i> Becc)]	500,000.00	CUM
2. Groups of other types of timber (Region II) [Mentaos (<i>Wrightia javanica</i> DC), Kisereh (<i>Cinnamomum parthenoxylon</i>), Perupuk (<i>Lophopetalum</i> spp), Giam (<i>Cotylelobium</i> spp), Balangeran (<i>Shore balangeran</i> Burck), Kulim (<i>Scorodocarpus bprmeemsos</i> Becc)]	414,000.00	CUM

II. Logs of small diameters (not applicable to groups 1.b.1. and 1.c.)		
a. Logs with diameter < 30 cm	204,000.00	CUM
b. Palisades	10,000.00	Piece
c. Fish-trapping stakes and piles	32,000.00	Piece
d. Beams for flat-car rails	127,000.00	CUM
e. Charcoal of:		
- Mangrove and Meranti	320,000.00	Ton
- Mixed Forest wood	151,000.00	Ton
f. Fire wood	15,000.00	SM
g. Teakwood stump	279,000.00	Ton
III. Logging waste	204,000.00	Ton
IV. Chip raw materials (BBS) shall be logs with small diameters which shall be processed into chips	204,000.00	CUM
V. Other Assortment Wood		
1. Yellow wood	494,000.00	Ton
2. Ebony wood	6,000,000.00	Ton
3. Teak wood:		
- Diameter of 30 cm and up	764,000.00	CUM
- Diameter of 20 cm -- 29 cm	485,000.00	CUM
- Diameter of <19 cm	192,000.00	CUM
4. Mangrove wood	151,000.00	Ton
5. Pine wood	128,000.00	Ton
6. Yellow sandalwood:		
- Part of yellow sandalwood with hard core in all shape	7,000,000.00	Ton
- softwood (between bark and xylem) of yellow sandalwood in all shapes	700,000.00	Ton
VI. Wood from timber estate/plantation (HTI)		
a. Pine	43,000.00	Ton
b. Acacia	28,000.00	Ton
c. Balsa	17,000.00	Ton
d. Eucalyptus	28,000.00	Ton
e. Gmelina arborca	27,000.00	Ton
f. Rubber	43,000.00	Ton
g. Sengon	17,000.00	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	745,000.00	CUM
2. Diameter of 20 cm -- 29 cm	485,000.00	CUM
3. Diameter of <19 cm	192,000.00	CUM
b. Fancy forest logs (Sonobrite, Mahogany)		
1. Diameters of 30 cm and above	384,000.00	CUM
2. Diameter of 20 cm -- 29 cm	134,000.00	CUM
3. Diameter of <19 cm	82,000.00	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	135,000.00	CUM
2. Diameter of 20 cm -- 29 cm	118,000.00	CUM
3. Diameter of <19 cm	80,000.00	CUM
d. Mixed forest logs		
1. Diameters of 30 cm and above	118,000.00	CUM
2. Diameter of 20 cm -- 29 cm	80,000.00	CUM
3. Diameter of <19 cm	59,000.00	CUM
e. Rasamala	128,000.00	CUM

Note: The above Reference Prices structure will remain valid until a new structure becomes available.

Table 14: Reforestation Fee
 Government Regulation No. 92/1999 - Dated: October 13, 1999
 (Currently Valid until A New Regulation is Announced)

No.	Description	Unit	Tariff/Unit
A.	Kalimantan and Maluku Region		
	- Meranti Group	CUM	US\$ 16
	- Mixed Forest Group	CUM	US\$ 13
B.	Sumatera and Sulawesi Region		
	- Meranti Group	CUM	US\$ 14
	- Mixed Forest Group	CUM	US\$ 12
C.	Irian Jaya and Nusa Tenggara Region		
	- Meranti Group	CUM	US\$ 13
	- Mixed Forest Group	CUM	US\$ 10.50
D.	All (Indonesia) Region		
	1. Ebony wood	Ton	US\$ 20
	2. Teak wood	CUM	US\$ 16
	3. Fancy wood	CUM	US\$ 18
	4. Sandalwood	Ton	US\$ 18
	5. Pulp wood (Bahan Baku Serpih or BBS)	Ton	US\$ 2
	6. Logging waste and other specific wood products	CUM	US\$ 2
E.	Pulp wood processed in regions that has no pulp and paper mills	CUM	US\$ 0
F.	Pulp wood used for joint research by PT. Inhutani I,II,III,IV, and V with intermediate wood chips producers using portable machinaries	CUM	US\$ 0
G.	Logs donated for natural disaster victims and other social affairs	CUM	US\$ 0

Table 15: Exchange Rate Table

Exchange Rate (Rp./1US\$) on Period Month Ending Basis

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2000	7,414	7,517	7,598	7,988	8,728	8,742	9,055	8,370	8,891	9,483	9,524	9,385
2001	9,488	9,914	10,460	12,117	11,423	11,436	9,744	9,045	9,696	10,358	10,476	10,450
2002	10,383	10,222	9,779	9,441	9,823	8,741	9,171	8,938	9,057	9,257	9,020	8,929
2003	8,877	8,917	8,957	8,711	8,274	8,259	8,643	8,488	8,468	8,627	8,537	8,528
2004	8,417	8,439	8,587	8,661	9,210	9,408						

Source: BPS Statistics Indonesia and Business Indonesia Daily Newspaper.

Note: - BPS data available up to February 2004

- June 2004 exchange rate is quoted for June 28, 2004

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING**Production****Forest Situation/Outlook**

Tropical hardwood lumber production is forecast to decline from 6.3 million CUM in 2003 to 6.1 million CUM in 2004 and 2005. With plummeting annual allowable cutting of logs, industries use additional log harvests from other sources, such as conversion forests, community forests, and timber estates. As additional supplies from the other sources are insufficient (timber estate development is stagnant), total hardwood log production (not including illegal logs) is forecast to decline from 26.0 million CUM in 2003 to 25.0 million CUM in 2004 and 2005.

Solid Wood Products Situation/Outlook

The lower annual allowable logging (within production forest areas) and ongoing illegal logging practices continue to disrupt the performance of the solid wood products industry (log, lumber, plywood, wood working, furniture). Although the wood product industry is concentrated mainly in Kalimantan, political instability in several parts of the country such as Aceh, Maluku and Papua also contributes to declining wood industry performance. With a lower supply of raw materials, increasing production costs, and inconsistent policy (regional vs. central government policies), industries are striving to improve the efficiency of their facilities. In addition, use of other types of logs such as rubber wood, wood from community forests, and fast growing wood species from timber estates, is increasing. Very little expansion or new investment in this sector is occurring.

Lumber, plywood and wood working industries are struggling to maintain production levels. Plywood production (66% produced in South Kalimantan and 13% in Central Kalimantan) is expected to decline 6.4 million CUM in 2003 to an expected volume of 6.1 million CUM in 2004. Plywood exports are falling due to less demand from key markets such as Japan and

availability of similar products and/or wood substitutes from China. Prices reportedly increased during 2003 and the first trimester of 2004. The price of thin plywood (2.7 mm thickness) increased from an average of US\$ 240/CUM in 2003 to US\$ 283/CUM during the first semester of 2004 (the highest price was US\$ 472/CUM reached in 1993). Thick plywood was sold at an average of US\$ 177/CUM in 2003 and reached US\$ 196/CUM during the first semester of 2004.

To adjust to the changing market conditions, plywood mills are producing more secondary products such as particle/block/medium density fiberboard or mdf, using by-products from plywood milling. Financial constraints prevent the industry from upgrading facilities/equipment. To maintain and/or increase revenue, the industries are also producing more value-added products such as fancy plywood that use imported veneer. Most of these products are then shipped overseas. Developing new markets and producing items for niche markets have been the major objectives of the industry.

Trade

Indonesia's main forest product export is plywood and most local production is for the export market. Plywood export volume is forecast at 5.5 million CUM in 2004 and to decline further to 5.2 million CUM in 2005. The value of plywood exports in 2003 was stagnant at US\$ 1.7 billion, accounting for 52.6 percent of the value of total annual wood products exported. Total value of wood product exports has declined from US\$ 3.3 billion in 2002 to US\$ 3.2 billion in 2003.

The import value of veneer (coniferous, hardwood and other woods) in 2003 reached US\$ 14.2 million, slightly higher than in 2002. Major suppliers 2003 were the United States, China and Japan with their shares of US\$ 5.7 million (40.2 %), US\$ 2.5 million (17.6%), and US\$ 1.8 million (13%) respectively. Imports of veneer from the U.S. almost doubled from 2002. Total imports of temperate hardwood logs (HS Code: 440391) in 2003 declined substantially to US\$ 17.2 million down from US\$ 27.7 million in 2002, dominated by temperate hardwood species from the United States valued at US\$ 15.9 million or around 93 percent of the total. Import value of temperate hardwood lumber (HS Code: 440791) slightly decreased from US\$ 16.7 million in 2002 to US\$ 15.7 million in 2003. The United States continued to be the largest supplier of temperate hardwood lumber in 2003 shipping US\$ 5.5 million (35.1%) followed by China supplying 16% of total import of veneer valued at US\$ 2.5 million.

Marketing

There are several trade associations in Indonesia involved with activities related to forest/wood products such as Apkindo (wood panel/plywood manufacturers), Asmindo (furniture industry), APHI (logging operations), ISA (lumber/wood working industry). Membership is on voluntary basis. Marketing boards no longer exist and every company is free to develop business relations with buyers directly. Associations are now primarily involved with distribution of technical, trade and policy information.

As noted above, opportunities exist for U.S. hardwoods in Indonesia. To take advantage of this, in 2003/04 USDA granted a Quality Sample Program (QSP) allocation for Indonesia to promote U.S. hardwood, and a company in East Java distributed the samples to local manufacturers.

Policy

Indonesia ostensibly requires forest product industries to carry out sustainable forest management according to International Tropical Timber Organization or ITTO recommendations. Logging privileges are granted to companies through forest concession rights (HPH-Hak Pengusahaan Hutan) that are valid for 35 years with possibility for extension. Each HPH is supposed to submit an annual work plan (RKT-Rencana Kerja Tahunan) to set the volume of loggings they intend to cut. This RKT is enforced by government forestry officials through monitoring and by marking commercial wood species that have diameter of 50 centimeters and over.

In addition to the selective cutting, logging operations are also obligated to follow a replanting plan. After logging, companies are required to pay into a reforestation fund and Forest Royalty Fund, which goes to the local government forestry office. This must be paid before the logs are processed to obtain an official certificate of origin. If the wood products are for export, traders must then obtain an export permit and endorsement by the Forest Industry Revitalization Agency (BRIK- Badan Revitalisasi Industri Kehutanan) is required. This institution was formed by the government and is managed by the private sector. Its objective is to guarantee that products use legal logs derived from areas using sustainable forest management practices. To better monitor internal movement of logs, the government requires that inter-island trading of forest/wood products use of Indonesian flag vessels.

The government has also attempted to develop timber estates to provide a sustainable source of timber for the local industry. However, for a variety of reasons, this program has not been successful.

World Wild Fund Indonesia has formed an Indonesian Wood Producers Group to facilitate member audits to obtain an Ecolabel certificate. Membership of this newly established group requires that companies use logs cut legally and that implement sustainable forest/wood management practices.

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