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Indonesia

Solid Wood Products

Annual

2006

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Report Highlights:

Since late 2005 to the Government of Indonesia (GoI) has been warring against illegal logging throughout Indonesia, resulting in a raw materials shortage. The total demand of an estimated 62.9 million CUM of raw material is not being met, putting Indonesian wood industries in a precarious situation. By the end of 2009 limitations on use of timber from natural forests. In 2014 the GoI has announced it will completely prohibit the use of timber from natural forests.

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Executive Summary

Due to a shortage of raw materials, many wood product companies are suffering. Many large-scale plywood companies and other wood products firms have stopped operating. Many are located outside Java, especially Sumatera and Kalimantan.

On March 09, 2006, Joint Decree of 4 Ministries (Transportation, Industrial, Trade and Forestry) was signed. This Joint Decree No. KM 12 12/2006 took effect on 01 March 2006 and is designed to limit illegal logging. This Joint Decree gives officials the right to detain any log transport to check and verify the legitimacy of the loads. It is reported that some irresponsible officials involved in the implementation of the Joint Decree misuse their authority for personal gain. Because of this situation, the National Shipowner's Association (INSA) and Indonesian People Shipping Company (Pelra) are reluctant to transport logs. Reports indicate that the Indonesian wood product industries may have declined up to 60% over the past year.

Though illegal logging is reported to have decreased significantly, illegal trading remains a problem. With thousands of islands and thousands of kilometers of coastal area, and limited official surveillance it is very difficult to control the traffic of logs outbound from Indonesia. Moreover, in the two largest islands in Indonesia, Kalimantan and Papua, the borders are difficult to control due to the geographic and natural conditions. It is estimated by local analysts that more than 10 million CUM of logs were illegal exported in the first quarter of 2006.

Production

According to the Ministry of Forestry, industrial demand of 62.9 million CUM in 2006 was not met. Only 48.2 million CUM was provided to the industry. Industrial Timber Plantations (HTI) contributes 41% or 19.7 million CUM, conversion forests (or often called crop estate land clearing) 28.42% or 13.7 million CUM, natural forests occupies 13.69% or 6.6 million CUM and 8.51% or 4.1 million CUM from the stocks of industries in 2005.

Sources of Timber Supply for National Wood Products Industry in 2006

No.	Sources of Supply	Total (CUM)	Percentage
1	Natural Forests	6,600,000	13.69
2	Industrial Timber Plantation (HTI)	19,762,000	41.00
3	Conversion Forests	13,700,000	24.42
4	Small holder forested land	1,000,000	2.07
5	Stock of Industry 2005	4,100,000	8.51
6	Mining & transmigration land	2,000,000	4.15
7	Imported raw materials	500,000	4.04
8	Auctioned timber	10,000	0.02
9	Rubber estate timber	437,000	0.91
10	Timber of Perum Perhutani (state)	91,000	0.19
Total		48,200,000	100.00

Source: Ministry of Forestry, prepared

The latest data from MoF, current wood processing industries are:

Wood Processing Industries 2006

Types of Industry	Number of Industry	Capacity (CUM)
Sawn Timber	327	7,460,000
Plywood	113	12,000,000
Chips	6	1,250,000
Pulp & paper	7	27,000,000
MDF	5	625,000
Total	458	48,335,000

Source: Ministry of Forestry, prepared

Production Capacity

The term "capacity" has several interpretations. Capacity is described as follows:

- Designed capacity: the capacity initially designed/planned for a wood working factory
- Installed capacity: the real capacity installed in a wood working factory
- Running/production capacity: the real running capacity at certain time

The different published capacity in several publications (bulletin, government website, private sector websites) has led confusion.

Type of Forest

There are several types of forests:

- **Natural Production Forest:**

- Natural Forest: AAC (Annual Allowable Cut) 2006 8.15 million CUM.
- Industrial Timber Plantations (HTI): no limitation, it depends on each industry that has HTI. It depends on its capacity, demand and sustainability of each company. Currently, Indonesia HTI rate is 20 km/ha/year, which is only half of Brazil. Most of HTI are planted with fast growing trees: Acacia mangium 50%, Eucalyptus pellita 40% and the rest are Gmelina arborea and others.

Both Natural Forest and HTI can be explored by having Wood Forest Exploration and Concession Permit (IUPHHK = Ijin Usaha Pemungutan Hasil Hutan Kayu)

- **Natural Protection Forest:** usually become National Park/resort place
- **Natural Conservation Forest:** usually become National Park and for research purposes
- **Natural Conversion Forest:** natural forest which intentionally would be converted into plantation (i.e. oil palm) or other form of agriculture
- **Community Forest:** owned by people or farmers. There is no control, no data record and no limitation from government. Due to this situation, it is reported there are trends to cut durian (*Durio zibethinus*) tree in North Sumatra. Wood business players say that durian wood is better than meranti (*Shorea*) wood.

Annual Allowable Cut 2006 by Province:

Annual Allowable Cut (AAC) - 2006

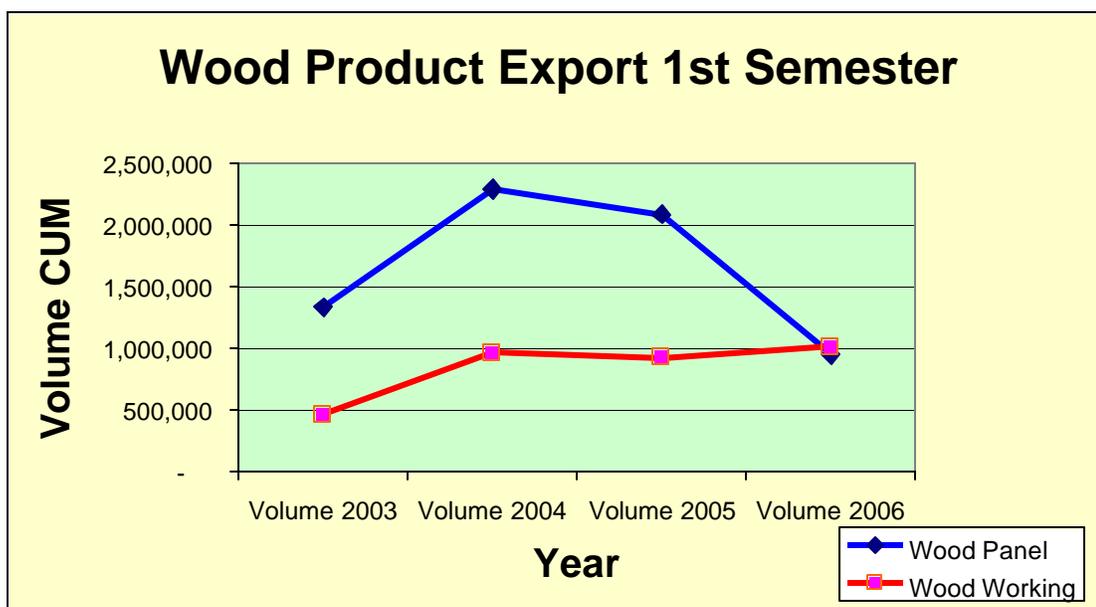
No	Province	Projection (CUM)
1	N.A.D (aceh)	500,000
2	North Sumatra	103,350
3	West Sumatra	204,400
4	Riau	300,700
5	Jambi	74,130
6	South Sumatra	N/A
7	Bangka Belitung	N/A
8	Bengkulu	36,630
9	Lampung	N/A
10	Bali	N/A
11	West Nusa Tenggara	33,800
12	East Nusa Tenggara	N/A
13	West Kalimantan	365,750
14	Central Kalimantan	822,000
15	South Kalimantan	52,200
16	East Kalimantan	2,440,700

17	North Sulawesi	25,200
18	Gorontalo	25,650
19	Central Sulawesi	229,600
20	South East Sulawesi	N/A
21	West Sulawesi	149,160
22	South Sulawesi	N/A
23	Maluku	287,250
24	North Maluku	264,100
25	Papua	825,350
26	West Irian Jaya	1,412,280
Total		8,152,250

Source: Ministry of Forestry

Trade and Policy

The latest view of wood export up till the first semester 2006:



Source: Board of Forest Industry Revitalization (BRIK)

Policy Outlook:

International Policy

A new board, the Board of Forest Industry Revitalization (BRIK, has been formed in order to respond to the natural resources revitalization movement (forestry, agriculture, aquaculture) proclaimed by the GoI. This board functions as separate entity of government body and is tasked to revitalize all forest related with wood industries. BRIK has close relation with one of wood industry associations: Indonesia Sawmill and Woodworking Association (ISWA). These two organizations have the same chairwoman. One of the tasks of BRIK is to endorse export activity of wood industry products.

For products destined for Japan, it is enough to have endorsement from BRIK, but for European countries, Voluntary Partnership Agreement (VPA) and Forest Law Enforcement, Governance and Trade (FLEG-T) are required.

Currently, there are only 5 (five) companies who have the certification from Forest Stewardship Council (FSC). The certification includes the eco-label and smart wood coding. FSC was formed by WWF International, Greenpeace and Rain Forest Alliance (RFA). Smart wood coding uses barcode affixed to every log produced from the certified forest. The barcode includes the code for Sustainable Forest Management (SFM) and Chain of Custody (COC). The 5 (five) companies that with FSC certification are:

1. Diamond Raya Timber: swamp forest in Riau, Sumatera
2. Erna Djuliawati: West Kalimantan
3. Koperasi Hutan Lestari: 152 ha in Sulawesi
4. Sumalindo Lestari Jaya: 267,000 ha, Hulu Mahakam, East Kalimantan
5. Intraca: East Kalimantan

The process is not simple. One of these companies took 14 years to meet the certification process. The intention to certify the forest is to get better access in developed country markets, specifically in U.S. and EU countries. Local firms report that the certification process has yet to provide the hoped for advantage in many markets.

Domestic Policy

Recent tax provisions for wood products have contributed to the worsening situation for wood product producing firms. These include:

- Forest resources provision: about Rp. 65,000 – 70,000 per CUM
- Reforest fund
- Land area tax
- Log VAT
- Export citation: 5% from the total transaction
- Environment tax: 0.5% from total turnover above Rp. 300 million
(Note: this environment tax has not taken effect yet, it is still ongoing process to be legalized by parliament/representative)

According to APKINDO (Indonesia Wood Panel Association), the local ply wood association for plywood producers, these taxes amount to about 30% of total cost, which is far above those for competitor countries. In addition, the performance of the state-owned electricity company has deteriorated in the last two years, resulting of unreliability of electricity supply in contrast with the rising price of the electricity for industries. The shortage of electricity has forced many producers to use fossil fuel generators, which increases production costs Plywood and MDF (medium density fiber) energy costs have increased from about US\$ 24/CUM to US\$ 60/CUM and it is still rising.

From the total 110 registered companies producing plywood and sawn lumber, in the first semester of 2006 only 40% remain in operation. Of the remaining 40%, only five firms are reported to be operating at 50% of capacity.

While the illegal logging issue has captured much attention, the real problem is not being addressed. The real problem of the wood products industry in Indonesia is illegal trading. The illegal trading (smuggling) within countries borders is difficult to quantify. As an archipelago country, Indonesia has the disadvantage of having thousands of kilometers of coastline. With the limitation of the officials, it is very difficult to keep the long coastline under surveillance. Many illegally exported logs originate from small islands and are directly shipped to other

countries by small traditional boats. This is reported in the northern part of Kalimantan as well. There are also illegal logs exports along land routes between Indonesia and Malaysia on Borneo/Kalimantan. Local analysts estimate that illegal log exports amounted to 10-15 million CUM in 2005.

Market Segment Analysis

Wood working, plywood, boards, furniture

There are increasing market demands for these products from both domestic and international markets, but due to the current situation unfortunately Indonesian producers cannot meet the demand. The factors mentioned above constrain Indonesian firms looking to fulfill local and international demand.

Statistical Information

PSD Table						
Country	Indonesia					
Commodity	Tropical Hardwood Lumber				1000 CUBIC METERS	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		01/2004		01/2005		01/2006
Production	6100	5400	6100	5700	0	3000
Imports	0	0	0	0	0	0
TOTAL SUPPLY	6100	5400	6100	5700	0	3000
Exports	0	0	0	0	0	0
Domestic Consumption	6100	5400	6100	5700	0	3000
TOTAL DISTRIBUTION	6100	5400	6100	5700	0	3000

PSD Table						
Country	Indonesia					
Commodity	Hardwood Plywood				1000 CUBIC METERS	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		01/2004		01/2005		01/2006
Production	6400	5700	6100	3500	0	2000
Imports	0	0	0	0	0	0
TOTAL SUPPLY	6400	5700	6100	3500	0	2000
Exports	5500	5100	5200	2400	0	1000
Domestic Consumption	900	600	900	1100	0	1000
TOTAL DISTRIBUTION	6400	5700	6100	3500	0	2000

PSD Table						
Country	Indonesia					
Commodity	Tropical Hardwood Logs			1000 CUBIC METERS		
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		01/2004		01/2005		01/2006
Production	25000	23000	25000	18000	0	47700
Imports	0	0	0	0	0	500
TOTAL SUPPLY	25000	23000	25000	18000	0	48200
Exports	0	0	0	0	0	0
Domestic Consumption	25000	23000	25000	18000	0	48200
TOTAL DISTRIBUTION	25000	23000	25000	18000	0	48200

Export Activity Endorsed by BRIK

1. Wood Panel Export

2003	Request			Realization				Price (US\$/CUM)
	Count	Volume (CUM)	Company	Count	Volume (CUM)	Company	Value (US\$)	
January	-	-	-	-	-	-	-	-
February	-	-	-	-	-	-	-	-
March	1,305	390,613	86	1,145	321,747	81	107,711,211	335
April	2,258	614,670	100	2,064	540,043	90	194,734,012	361
May	2,063	534,411	103	1,900	473,052	92	173,867,031	368
June	2,043	588,070	98	1,843	514,707	89	170,175,855	331
July	2,132	535,923	101	1,915	464,848	89	150,597,239	324
August	1,862	524,549	97	1,681	451,030	85	145,611,321	323
September	2,230	587,481	97	2,004	511,849	85	167,500,968	327
October	2,389	636,658	97	2,126	535,400	84	178,118,599	333
November	1,728	448,828	92	1,509	357,831	83	122,589,870	343
December	2,128	589,513	91	1,727	490,693	80	178,015,360	363
Total	20,138	5,450,716	135	17,914	4,661,200	122	1,588,921,466	341

Source: Board of Forest Industry Revitalization (BRIK)

2004	Request			Realization				Price (US\$/CUM)
	Count	Volume (CUM)	Company	Count	Volume (CUM)	Company	Value (US\$)	
January	2,027	539,444	92	1,680	428,385	88	135,748,261	317
February	1,883	493,681	94	1,518	363,018	86	124,508,985	343
March	2,126	570,989	96	1,997	515,478	91	185,555,371	360
April	2,156	568,330	93	1,977	518,001	91	198,062,800	382
May	1,916	508,559	88	1,762	467,120	86	185,290,794	397
June	2,057	538,912	97	1,827	469,843	92	189,097,928	402
July	1,882	514,770	92	1,701	467,023	87	184,836,009	396
August	1,861	486,861	87	1,754	441,246	82	170,898,160	387
September	1,738	455,198	91	1,611	404,837	84	159,397,871	394
October	2,008	557,639	84	1,700	506,471	81	183,826,372	363
November	1,600	402,236	90	1,268	334,103	86	120,602,220	361
December	1,982	548,380	89	1,650	445,690	81	161,052,345	361
Total	23,236	6,184,999	129	20,445	5,361,215	120	1,998,877,116	373

Source: Board of Forest Industry Revitalization (BRIK)

2005	Request			Realization				Price (US\$/CUM)
	Count	Volume (CUM)	Company	Count	Volume (CUM)	Company	Value (US\$)	
January	1,672	482,005	79	1,532	424,307	75	153,218,621	361
February	1,747	473,411	88	1,684	434,232	86	164,228,821	378
March	1,842	477,085	85	1,781	447,514	84	168,246,371	376
April	1,716	423,794	84	1,649	397,481	84	156,446,131	394
May	1,713	412,005	82	1,641	381,644	81	141,450,385	371
June	1,619	373,385	83	1,557	347,045	79	129,936,398	374
July	1,600	371,982	82	1,463	338,824	76	125,597,890	371
August	1,680	424,399	84	1,561	365,893	74	131,803,173	360
September	1,547	400,800	79	1,437	358,131	75	125,660,334	351
October	1,715	434,642	78	1,604	393,210	72	138,634,565	353
November	1,238	298,985	73	1,151	262,243	69	93,760,151	358
December	1,642	419,895	72	1,527	358,709	67	128,090,788	357
Total	19,731	4,992,388	107	18,587	4,509,233	101	1,657,073,628	367

Source: Board of Forest Industry Revitalization (BRIK)

2006	Request			Realization				Price (US\$/CUM)
	Count	Volume (CUM)	Company	Count	Volume (CUM)	Company	Value (US\$)	
January	1,302	303,520	75	1,160	258,786	67	96,826,286	374
February	1,512	347,804	76	1,195	277,971	60	103,654,224	374
March	1,671	326,162	67	1,113	231,099	52	87,020,428	377
April	1,515	283,734	71	788	147,176	42	57,915,838	394
May	1,660	329,584	70	85	27,580	14	11,650,755	422
June	-	-	-	-	-	-	-	-
July	-	-	-	-	-	-	-	-
August	-	-	-	-	-	-	-	-
September	-	-	-	-	-	-	-	-
October	-	-	-	-	-	-	-	-
November	-	-	-	-	-	-	-	-
December	-	-	-	-	-	-	-	-
Total	7,660	1,590,804	87	4,341	942,612	72	357,067,531	379

Source: Board of Forest Industry Revitalization (BRIK)

2. Wood Working Export

2003	Request			Realization				Price (US\$/CUM)
	Count	Volume (CUM)	Company	Count	Volume (CUM)	Company	Value (US\$)	
January	-	-	-	-	-	-	-	-
February	-	-	-	-	-	-	-	-
March	1,724	94,621	280	1,309	57,430	241	32,425,043	565
April	5,494	302,786	711	4,263	224,899	605	107,707,636	479
May	5,310	261,009	788	4,089	181,672	639	91,113,569	502
June	5,977	308,232	830	4,592	223,174	692	111,028,171	497
July	5,977	305,583	835	4,734	232,275	686	135,621,425	584
August	5,372	270,455	826	4,159	201,334	679	91,939,753	457
September	5,783	302,875	824	4,520	231,434	677	101,273,473	438
October	6,043	318,098	854	4,624	234,304	668	106,508,178	455
November	4,171	213,585	768	3,099	146,724	594	66,888,431	456
December	5,528	274,759	791	4,149	197,401	616	86,995,948	441
Total	51,379	2,652,003	1,215	39,538	1,930,647	1,040	931,501,627	482

Source: Board of Forest Industry Revitalization (BRIK)

2004	Request			Realization				Price
	Count	Volume (CUM)	Company	Count	Volume (CUM)	Company	Value (US\$)	(US\$/CUM)
January	4,964	247,742	768	3,994	204,214	631	88,171,620	432
February	4,927	242,825	763	3,921	187,653	629	85,821,865	457
March	5,640	281,332	786	4,556	217,944	659	95,731,793	439
April	5,259	266,057	753	4,120	198,795	628	89,372,352	450
May	4,879	222,478	717	3,542	156,252	578	73,967,305	473
June	5,396	264,531	749	4,161	192,102	612	88,833,477	462
July	5,283	247,023	745	3,957	182,268	603	87,689,049	481
August	5,453	269,422	732	4,288	203,952	592	97,448,360	478
September	5,257	248,253	708	4,168	197,063	589	91,272,984	463
October	5,418	270,161	706	4,192	207,045	566	96,184,465	465
November	3,681	164,662	658	2,780	121,543	516	65,585,068	540
December	5,231	259,750	692	4,106	202,287	581	109,829,140	543
Total	61,388	2,984,236	1,105	47,785	2,271,118	957	1,069,907,478	471

Source: Board of Forest Industry Revitalization (BRIK)

2005	Request			Realization				Price
	Count	Volume (CUM)	Company	Count	Volume (CUM)	Company	Value (US\$)	(US\$/CUM)
January	4,579	218,764	619	3,927	177,616	543	91,446,354	515
February	4,562	210,327	642	4,015	174,167	577	91,940,003	528
March	5,271	258,163	674	4,652	209,050	604	107,099,081	512
April	4,626	212,718	662	4,066	175,733	593	111,819,431	636
May	4,664	221,183	635	4,100	185,718	567	93,304,741	502
June	4,940	246,916	656	4,371	207,070	595	104,314,863	504
July	4,600	226,107	648	3,959	185,914	576	97,677,005	525
August	4,816	242,182	610	4,193	200,778	537	111,659,456	556
September	4,954	245,127	635	4,309	204,729	555	120,077,542	587
October	4,809	232,805	647	4,119	194,895	546	99,553,851	511
November	3,420	167,549	560	2,909	134,669	480	73,493,893	546
December	4,841	228,421	613	3,992	180,213	509	97,974,366	544
Total	56,082	2,710,262	940	48,612	2,230,552	840	1,200,360,586	538

Source: Board of Forest Industry Revitalization (BRIK)

2006	Request			Realization				Price
	Count	Volume (CUM)	Company	Count	Volume (CUM)	Company	Value (US\$)	(US\$/CUM)
January	4,058	198,110	555	3,395	158,498	460	86,081,905	543
February	4,523	202,656	602	3,454	150,969	461	85,833,997	569
March	4,329	220,874	591	3,022	142,554	434	75,422,844	529
April	4,153	207,119	570	2,167	538,333	355	55,545,674	103
May	4,634	228,009	593	288	16,906	120	7,669,286	454
June	-	-	-	-	-	-	-	-
July	-	-	-	-	-	-	-	-
August	-	-	-	-	-	-	-	-
September	-	-	-	-	-	-	-	-
October	-	-	-	-	-	-	-	-
November	-	-	-	-	-	-	-	-
December	-	-	-	-	-	-	-	-
Total	21,697	1,056,768	805	12,326	1,007,260	600	310,553,706	308

Source: Board of Forest Industry Revitalization (BRIK)

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