

Voluntary Report – Voluntary - Public Distribution

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Report Name: Wood Processing Industry Overview

Country: Indonesia

Post: Jakarta

Report Category: Wood Products

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Report Highlights:

Indonesia's abundant forests provide primary raw materials for its growing export-oriented wood processing industry. Valued at over \$12 billion in 2019, the sector's growth has slowed as a result of COVID-19, impacting local producers as well as overseas suppliers including the U.S., which is a key supplier of lumber, veneer, logs and plywood

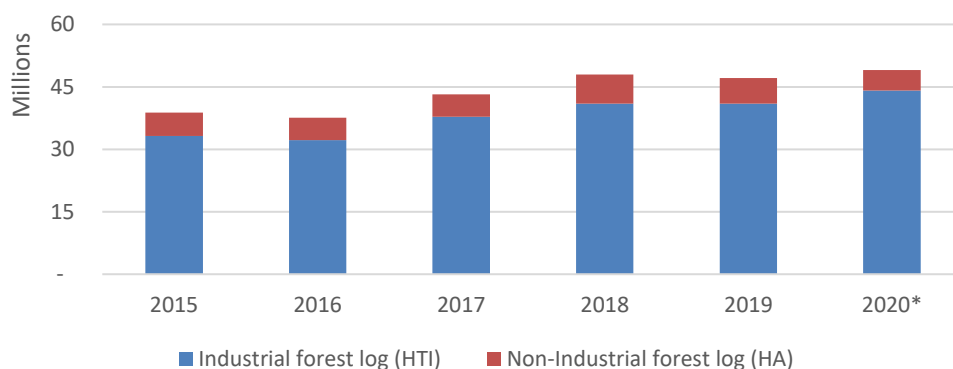
Domestic Raw Material Supply

Indonesia's forests provide primary raw materials for a growing wood processing industry. At least 68 million hectares have been allocated for production-purpose forest, including industrial forests (HTI) and primary / non-industrial forests (HA).

Logs production ranged between 38 to 48 million cubic meters (cum) during the five-year period of 2015-2019. Production was dominated by industrial forest logs, accounting for 86 percent on average. The majority these logs (HTI) were utilized for the pulp and paper industry. Logs harvested in non-industrial forests (HA) ranged between 5 to 7 million cum during the same period. These logs are often processed to lumber, veneer, woodworking products, furniture, and plywood.

In addition to these major production areas, small volumes of logs are produced outside of forest areas on community owned and plantation lands.

Figure 1. Logs Production 2015-2020 (cum)



*2020: as of Dec 21, 2020; Source: MOEF (<http://phpl.menlhk.go.id/>)

Export Market Overview

Indonesia is a major exporter of wood products, with a total value reaching \$12.4 billion in 2019. On average, between 2015-2019, 58 percent of export value was derived from pulp and paper products, with furniture, veneer, and other wood workings accounting for the balance.

By value, China accounted for 34 percent of Indonesia's pulp and paper exports, followed by Japan at 6 percent. Japan, China, U.S., and South Korea were the main markets for several Indonesian wood product categories, including veneer, wood workings, and chip wood. In 2019, 56 percent of Indonesia's total value of wood product exports were shipped to these four countries.

Indonesia's wood product exports contracted by 4.3 percent 2019, following a record high \$12.95 billion in 2018. According to the Association of Indonesia Forest Concession Holder (APHI), the decline in exports was directly linked to the U.S. – China trade situation, which decreased demand in both markets.

Table 1. Indonesia Wood Products Exports (million \$)

	2015	2016	2017	2018	2019	2020*
Wood Products	4,006	3,865	4,004	4,435	3,838	3,107
Pulp and Paper	5,293	4,976	6,226	7,132	7,153	5,667
Wood Furniture	1,350	1,281	1,321	1,388	1,414	1,177
Total	10,649	10,122	11,551	12,955	12,404	9,951

Source: TDM; Note: *2020: January to October

Domestic Consumption and Production

Prior to the pandemic, Indonesian furniture demand increased significantly, driven by new housing developments and increased household income. Between the period of 2015-2019 the economy grew between 4.8 -5.17 percent and the population increased 1.1 – 1.27 percent annually, reaching an estimated 267 million people in 2019.

During this period, new furniture retailers expand in major cities, targeting growing middle-income population by offering modern, contemporary products. The growing hospitality sector also increased demand for luxury furniture items at hotels and resorts.

Table 2. Several Chain Furniture Stores in Indonesia

Ikea	Operating 2 stores with 8 distribution points in greater Jakarta.
Fabelio	First open in 2015, operating 23 showrooms in Jakarta and Bandung. Sales between 6,000 and 10,000 units each month
Informa	Operating 100 stores in 48 cities
Olympic	Local market leader operating 3,000 stores with 23 plants. Approximate sales of 100,000 units monthly

Source: media compilation

Aside from furniture, Indonesia’s wood processing sector has continued to expand capacity to meet demand from the housing sector, commercial real estate, and overseas buyers. Nameplate capacity and number of operating units grew for most product categories between 2015-2019. However, utilization rates for production of plywood, veneer, and sawn wood have shown mixed results.

Table 3. Nameplate Capacity of Wood Processing Industry

No	Production	2015			2016			2017			2018			2019		
		No unit	Capacity (cum)*	Utilisation (%)	No unit	Capacity (cum)*	Utilisation (%)	No unit	Capacity (cum)*	Utilisation (%)	No unit	Capacity (cum)*	Utilisation (%)	No unit	Capacity (cum)*	Utilisation (%)
1	Plywood/LVL	116	9	41	127	9	39	139	9	40	153	10	43	163	10	40
2	Veneer	88	3	36	97	3	29	121	3	27	137	4	32	155	4	31
3	Sawnwood	189	6	32	214	6	29	250	7	27	257	7	25	263	7	24
4	Chip	19	40	65	20	47	56	19	45	69	16	44	72	19	45	69
5	Pulp	6	9	63	6	11	53	6	11	63	6	11	68	6	11	70

Source: RPBB (http://rpbbi.menlhk.go.id/) Note: * unit for pulp production ton

Imports

Imported materials represent a significant amount of inputs for Indonesia's wood processing industry. Total wood products (HS Code 44) import value has grown 6 percent annually since 2010, reaching \$541 million in 2019. Products imported by highest value were lumber, fuelwood, logs, veneer and plywood.

Table 3. Wood Products Imports and Top Origins – 2019

Wood Products	Lumber	Fuelwood	Log	Veneer	Plywood
HS Code	4407	4401	4403	4408	4412
Import Value (\$ million)	135	133	54	44	44
Top Suppliers & Value (\$ million)	1. U.S. (37)	1. Vietnam (93)	1. Malaysia (48)	1. China (21)	1. China (36)
	2. New Zealand (19)	2. Malaysia (14)	2. Germany (2.1)	2. U.S. (8.6)	2. South Korea (1.3)
	3. Canada (9.2)	3. Australia (9.4)	3. France (1.6)	3. Canada (2.7)	3. U.S. (1.2)

Source: TDM

Major imports from the U.S. include lumber, veneer, plywood, and logs. Combined, hardwood products contributed 65 percent of total U.S. wood products exports by value to Indonesia in 2019. Of these products, the highest value of hardwood consist of species of White oak, Walnut, Red oak, Yellow Poplar, Maple and Ash. These wood products are frequently used as part of exterior components for a wide range of products such furniture, frames, doors, and panels. Each species has unique color and specifications, enabling various combinations with local woods.

While U.S. hardwood lumber exports have remained relatively stable, exports of softwood lumber have increased considerably, almost doubling between 2015 and 2019.

Table 4. U.S. Forest Products Exports to Indonesia (thousand \$)

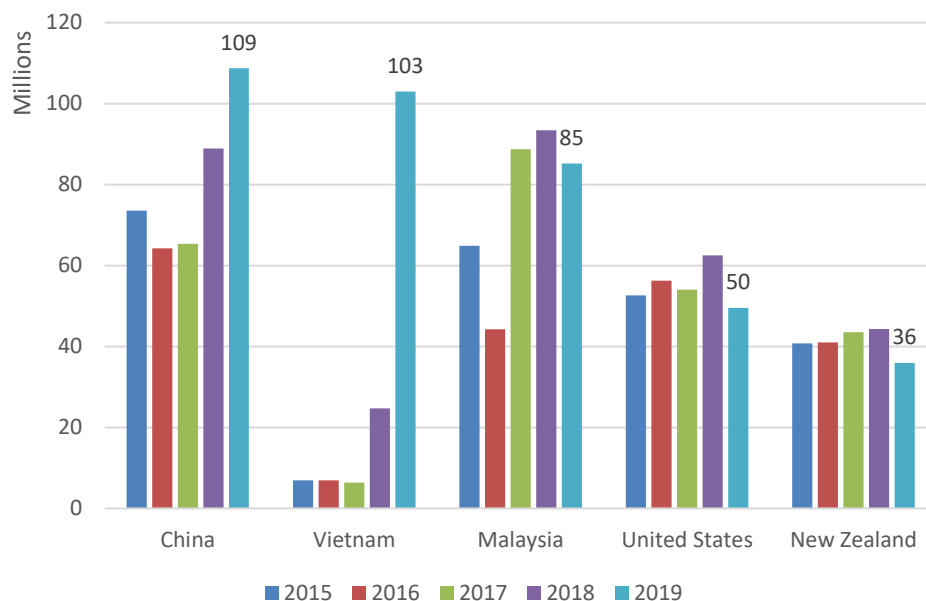
Product	2015	2016	2017	2018	2019	Jan - Oct	Jan - Oct	Change (%)
Hardwood Lumber	21,252	20,807	23,092	25,906	20,757	18,334	15,798	-14
Softwood Lumber	8,602	12,300	11,287	18,648	16,249	12,279	6,234	-49
Hardwood Veneers	7,910	8,481	8,133	7,020	7,443	6,340	6,517	3
Hardwood Logs	4,517	4,147	2,719	1,382	3,110	2,183	1,099	-50
Hardwood Plywood	1,576	1,514	1,490	1,201	1,125	975	544	-44
Softwood Veneers	36	63	319	936	776	604	248	-59
Wood Packing Material	122	41	9	54	202	141	11	-92
Softwood Plywood	0	31	131	4	126	126	8	-94
Treated Lumber	210	85	163	53	104	104	0	
Other Wood Products	292	208	79	117	88	72	54	-26
Poles	0	87	285	245	84	84	138	65
Softwood Molding	0	54	0	0	35	35	0	
Other Panel Products	51	0	55	25	31	27	0	
Hardwood Chips	6	0	0	20	22	0	21	
Hardwood Molding	0	0	0	0	5	5	0	
Medium Density Fiberboard	0	0	10	0	4	4	0	
Softwood Logs	1,447	2,235	2,527	455	0	0	28	
Softwood Flooring	0	0	23	102	0	0	0	
Hardwood Flooring	0	0	23	0	0	0	0	
Particleboard	4	0	5	0	0	0	0	
Osb/Waferboard	0	0	3	0	0	0	0	
Builders Carpentry	0	0	104	183	0	0	60	
Pulpwood	0	0	0	15	0	0	0	
Cooperage Products	0	0	0	26	0	0	0	
Assembled Flooring Panels	190	42	23	48	0	0	35	
	46,214	50,094	50,482	56,441	50,161	41,314	30,795	-25

Data Source: GATS, U.S. Census Bureau Trade Data

Balancing the increase in softwood lumber, declines in both hardwood and softwood logs have kept U.S. wood exports by value relatively stable during the period 2015-2019. During the same period, wood exports by value from China and Vietnam have grown considerably, reaching \$109 million and \$103 million in 2019, respectively.

Imports from Vietnam, which surged in 2018-2019, were mostly chip wood purchased by pulp manufacturers in Riau. China's increased exports included more plywood and veneers to feed Indonesia furniture and wood working manufacturers. According to industry contacts, suppliers from China offer a wider range of specifications, providing more pricing options for the same species compared to U.S. origin products.

Figure 2. Top 5 Indonesia Wood Products Import Origins 2015-2019 (\$)



Source: TDM, HS code: 44

Policy

Indonesia began to fully implement a Wood Legality Verification System (SVLK – Sistem Verifikasi Legalitas Kayu) in 2013 to encourage the use of legal and sustainable wood in the supply chain. The system requires legality assurance for imported woods through due diligence process utilizing an online system called SILK. Import permits are issued by the Ministry of Trade (MOT) following the completion of due diligence.

Table 5. Number of Companies Registered at SILK

Type of Company	Registered
Exporters	1890
Exporters non-Producer	228
Importers Producer	1585
Importer Traders	165

Source: silk.menlhk.go.id (accessed 26 October 2020)

COVID-19 Impacts

Indonesia’s wood product industry has been adversely impacted by COVID-19, particularly during the earliest phases of the global pandemic. Lockdowns in key foreign markets interrupted global supply chains, lowering demand for finished products and delaying arrivals of inputs.

The disruption has forced many manufactures to recalculate production costs, including raw materials needed for the rest of the year. In June 2020, APHI announced that lower production in the wood processing industry has led to a 21 percent decline in log harvesting.

Decreasing demand in the domestic market also adversely impacted furniture producers. In July 2020, the Indonesian Association of Furniture Manufacturers (Asmindo) reported their members in Yogyakarta suffered order postponements from domestic customers valued as IDR 28.9 billion (\$ 1.9 million), and order cancellations valued as IDR 16.3 billion (\$ 1.1 million). At the same time, overseas customers also postponed and cancelled orders worth of IDR 67.1 billion (\$ 4.5 million). The association reports that the sector has laid off an estimated 120,000 workers as a result of declining demand.

Prior to the pandemic, Indonesia's wood processing industry was experiencing solid growth across most product categories. Following the pandemic, growth recovery is likely to stretch well into 2021 and will to a large degree depend on the global economy and export demand.

In September 2020, industry sources indicated demand in key exports markets had begun to increase. Similarly, the ending of large-scale social distancing measures (locally known as PSBB) initially in June and again following a second phase in October, are helping furniture retailers recover. Still, the industry expects overall sales for 2020 to fall far short of pre-pandemic levels.

Many of the key fundamentals driving the sector's expansion prior the pandemic remain. Domestic population growth and a rebounding economy are expected to support strong local demand for wood products and the SVLK system has gained increased acceptance in overseas markets, including the EU.

U.S. hardwood products have become a part of Indonesia's wood processing industry value add and are expected to continue providing an important input along with local materials. While the US remains the largest supplier of hardwood lumber, China has emerged as a strong competitor for supplying veneer and plywood. China's market position, predicated on cheaper products, is likely to only improve following the pandemic as local manufacturers already struggling with increased labor costs and aging machinery look to cut input costs wherever possible.

Attachments:

No Attachments.