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Indonesia

Solid Wood Products

Annual

2001

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Report Highlights:
Forest management continues to be the mantra of the Government of Indonesia. However, illegal logging and exports remain substantial. In 2001, total annual timber removal is estimated at 56.5 million cubic meters – 32.5 million cubic meters above the annual allowable cut. Hardwood plywood production is forecast down again in 2002 to 7.5 million cubic meters. Tropical hardwood lumber production is up modestly to 6.5 million cubic meters. In a holding pattern, hardwood log production is at 26.5 million cubic meters in 2001 and 2002.

New regional autonomy policies add to the existing mix of forestry policies and have tended to cause confusion as well as be counter-productive to federal forestry policies.

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

Indonesia is home to some of the world's largest tropical rain forests, producing volumes of legal and illegal forest products exports (see Strategic Indicator table). In 2000 and 2001, there has been no expansion or new investment in the plywood industry. Production of plywood is declining in response to weak demand, i.e. from its peak of 10.5 million cubic meters in 1997 to 8.0 cubic meters in 2001 and forecast to decline even further to 7.5 million cubic meters in 2002. The active plywood industry (115 companies with 575 lines of production) is currently producing at around 50 percent of its total installed capacity which is registered at12.0 million cubic meters per year. Although the industry works and uses logs more efficiently (recovery rates between 50 to 55 percent) it is estimated that production will remain at the same levels in 2001 and 2002 responding to weak demand. Considering the economic slowdown occurring in major importing countries (particularly in Asia), exports are expected to continue declining from 7.3 million cubic meters in 2000 to around 7.0 million cubic meters in 2001 and 6.5 million cubic meters in 2002.

The tropical hardwood lumber industry is in a holding pattern. Production is expected to decline by a modest 3 percent in 2001 to 6.4 million cubic meters. Somewhat better management and consistency in policy implementation are expected to inch production upward to 6.5 million cubic meters in 2002. The annual allowable cut remains at 24.0 million cubic meters but with log harvest within the community forests tropical hardwood log production is estimated to be 26.5 million cubic meters in 2001 and 2002. Illegal logging is estimated at 30 million cubic meters, of which a portion is sold to local wood processors and a portion exported to neighboring countries. (Note: Production and exports from illegal cutting are not reflected in official production or trade data.)

Even though illegal logging is high, the Government of Indonesia (GOI) does have a thorough set of laws to attack the problem. Logging operations are regulated under sustainable forest management (SFM) protocol established by the International Tropical Timber Organization (ITTO). Indonesian SFM objectives focus on three major areas: ecology, economics, and social welfare. Various regulations are being implemented to control illegal logging, including selective cutting as laid out in the annual logging plan, reforestation programs, and also resources royalty provision (see Table 10). Effective January 1, 2001, the GOI applies a 15 percent export tax based on high check price levels (see Table 8) to control log exports. There are also numerous regulations imposed on the industry which are intended to discourage excessive logging operations. For example, the forest concessionaires are required to set aside 5 percent of their log production to guarantee adequate supply for the local wood industries; also, they are expected to involve local people in their operations; and they pay many kinds of forestry-related fees and taxes. All of those efforts to manage logging explorations, however, seem to be far from hitting the mark and illegal logging and export smuggling remain substantial.

Trade liberalization in the wood industry has been carried out according to the Letter of Intent (LOI) between the GOI and the International Monetary Fund in several ways. For one, the LOI revoked the ban on log exports. The Indonesian wood industry asserts that this has been damaging to the local industry by encouraging illegal logging for the export market. The LOI also removed the Indonesian Wood Panel Association's marketing board function and now allows private firms to deal directly with clients. The transition to a more open market is still underway, as producers are adjusting to new market forces. Some producers, for example, have not responded to the slowdown in demand in export markets such as Japan and Korea, thus, supply is high and may force prices even lower. Competition among producers also has helped push prices down significantly.

Competition also spurred the wood working industry to improve its performance by producing particle/block/medium density fiber or mdf boards which use logs more efficiently. It also improved its marketing strategy by intensifying its market development programs and exploring new markets.

Forest products contributed around 5.8 percent to Indonesia's total export revenue in 2000 or 7.6 percent of total annual revenue from non-oil and gas exports. During January-December 2000, forest products exports (logs and processed wood) amounted to around 6.3 million cubic meters valued at US$3.6 billion. Plywood exports' value in 2000 reached US$2.0 billion down from US$2.3 billion in 1999. Low demand in the main export markets – particularly Asia – and tight competition from other producing countries have kept plywood supply up and export prices low, currently at around US$300/cum compared to an average export prices of US$312/cum in 2000. Plywood exports in January 2001 show an increase in volume and value which were recorded at 305.8 thousand cubic meters and US$153.8 million compared to 275.1 thousand cubic meters at US$148.8 million in January 2000. With respect to log exports, official trade data reported that log exports (temperate soft wood species, not including tropical hardwood) for 2000 increased significantly from 207,000 metric tons in1999 to 248,600 mt, valued at US$45.3 million. Temperate and softwood log export value in January 2001 reached US $6.5 million, up considerably from US$3.4 million in January 2000. Exports of total processed wood (including plywood, lumber and other processed wood) for 2000 generated US$3.6 billion, down from US$3.8 billion in 1999. Total export value of processed wood in January 2001 also declined to US$244.8 million from US$264.3 million in January 2000. Although log export prices are much higher than domestic prices (US$110/cum versus US$53/cum, or Rp. 600,000/cum), industry sources indicate that it can still be more profitable to sell domestically. Substantial obligations for log producers such as the reforestation fee, taxes on production facilities, and the 15 percent export tax have made export of logs less attractive. Nevertheless, while official trade data shows only around 250,000 cubic meters of logs exported annually, industry sources indicate that the volume of logs smuggled across the country's border is almost 10.0 million cubic meters per year.

SECTION II. STATISTICAL TABLES

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

	CY 2000	CY2001	CY2002
Country: Indonesia Report Year: 2001	Previous Calendar Year	Current Calendar Year	Following Calendar Year
Total Land Area	192.73	192.73	192.73
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	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/	n/a	n/a	n/a
Annual Timber Growth Rate			
Annual Allowable Cut	24	24	24

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 panels	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, 2001 (December 2000).						

Import duties remain the same as previous year. Until the new proposed export tariff of 10 percent is approved and announced, the 1999 export tariffs for wood products remain valid at 15 percent.

Table 3: Strategic Indicator: Wood Products Subsidies

Country: Indonesia Year of Report: 2001	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 (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

Source: Various sources.
Note: No change from year of report 2000.

Table 4: PSD Hardwood Plywood

PSD Table						
Country:	Indonesia				Unit:	1,000 CUM
Commodity:	Hardwood Plywood					
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Production	8000	8200	8200	8000	0	7500
Imports	0	0	0	0	0	0
TOTAL SUPPLY	8000	8200	8200	8000	0	7500
Exports	7300	7768	7500	6973	0	6500
Domestic Consumption	700	432	700	1027	0	1000
TOTAL DISTRIBUTION	8000	8200	8200	8000	0	7500

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

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	1999			2000
U.S.	993		U.S.	729
Others			Others	
Japan	2,729		Japan	2,608
Middle East (Trad)	640		Middle East (Trad)	694
Continental	639		South Korea	555
South Korea	564		Continental	523
Taiwan	544		Taiwan	467
PRC	452		PRC	419
Hong Kong	322		Hong Kong	237
UK/Ireland	265		UK/Ireland	232
Other Mid. East	219		Other Mid. East	200
Singapore	193		Singapore	124
Total for Others	6,567		Total for Others	6,059
Others not listed	208		Others not listed	185
Grand Total	7,768		Grand Total	6,973
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	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Production	6600	6600	6500	6400	0	6500
Imports	0	0	0	0	0	0
TOTAL SUPPLY	6600	6600	6500	6400	0	6500
Exports	0	0	0	0	0	0
Domestic Consumption	6600	6600	6500	6400	0	6500
TOTAL DISTRIBUTION	6600	6600	6500	6400	0	6500

Table 7: PSD Tropical Hardwood Logs

PSD Table						
Country:	Indonesia				Unit:	1,000 CUM
Commodity:	Tropical Hardwood Logs					
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Production	25500	25500	25000	26500	0	26500
Imports	0	0	0	0	0	0
TOTAL SUPPLY	25500	25500	25000	26500	0	26500
Exports	0	0	0	0	0	0
Domestic Consumption	25500	25500	25000	26500	0	26500
TOTAL DISTRIBUTION	25500	25500	25000	26500	0	26500

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)
Decree of the Directorate General of International Trade, Ministry of Industry and Trade
No. 62/DJPLN/III/2001 - Dated: March 29, 2001
Effective: April 1 through June 30, 2001

HS Codes	Description of Goods	Check Prices US$	Unit CUM/Ton
I. Logs			
4403.10.291	Ebony wood groups	5,000.00	Ton
4403.103.291	Sandalwood groups	3,500.00	CUM
4403	Other Logs under Group of Fancy Wood	500.00	CUM
4403.10.270	Teak Logs	900.00	CUM
4403.10.271	Logs under Meranti Group		
	- except Bangkirai, Merbau	150.00	CUM
	- Bangkirai and Merbau	170.00	CUM
4403	Mixed Forest Logs except Kempas and Semantok	90.00	CUM
	- Kempas	130.00	CUM
	- Semantok/Damar Laut species	140.00	CUM
4403.10.296	Rubber Logs Groups	40.00	CUM
II. Pulp Materials			
4403.20.100 and	Chip Materials of Natural Forest	5.00	CUM
4403.99.100			
III. Sawn Timber including Sleepers and Veneer			
4406	Sandalwood group	8,000.00	Ton
4407.99.110/120	Ebony wood group	6,000.00	CUM
4407.99.210/290			
4407.99.300/310			
4407.99.911/912			
4407.99.991/992			
4408			
4406	Other Fancy Wood	1,000.00	CUM
4407			
4408			
4406	Teak Wood	1,000.00	CUM
4407.29.110			

4407.29.210			
4407.29.310			
4407.29.910			
4408			
4406	Group of Meranti	450.00	CUM
4407.26.110			
4407.26.210			
4407.26.310			
4407.26.910			
4408			
4406	Mixed Forest Wood Groups	300.00	CUM
4407			
4408			
4406	Rubber Wood	200.00	CUM
4407.99.140			
4407.99.230			
4408.99.914			
4408			
IV. Split Stems			
4404.20.210	Sandalwood	8,000.00	Ton
4404.20.210	Ebony	6,000.00	CUM
4404.20.220	Other Fancy Wood	1,000.00	CUM
4404.20.220	Teak Wood	1,000.00	CUM
4404.20.230/240	Meranti Group	400.00	CUM
4404.20.240	Mixed Forest Wood	275.00	CUM
4404.20.230	Rubber Wood	200.00	CUM
V. Wood Poles, including Electricity/Telephone Poles			
4404.20.210	Sandalwood group	8,000.00	Ton
4404.20.210	Ebony wood group	6,000.00	CUM
4404.20.220	Other Fancy Wood	1,000.00	CUM
4404.20.220	Teak Wood	1,000.00	CUM
4404.20.230/240	Meranti Group	200.00	CUM
4404.20.240	Mixed Forest Wood	160.00	CUM
4404.20.230	Rubber Wood	120.00	CUM
Source: Directorate of Agriculture Product Export, Ministry of Industry and Trade.			

Table 9: Production of Logs by Type of Logs (in CUM)
(1997 - 1998)

Type of Logs		1997	1998	1999*)
Local Name	Latin Name			
Agathis	Agathis	105,446	53,634	64,571
Bakau	Rhizopora spp.	557,937	379,071	321,887
Bangkirai	Shorea lalvifolia	141,629	169,885	220,655
Benuang	Octomeles sumatrana Miq	83,482	31,302	44,482
Damar	Shorea spp.	30,096	14,430	15,638
Duabanga	Duabanga molucana BI	87,809	26,237	84,761
Indah	Fancy Wood	235,430	169,335	183,512
Jelutung	Dyera spp	125,189	75,203	44,801
Kapur	Dryobalanops spp.	555,502	295,275	483,462
Kruing	Dipterocarpus spp.	1,465,828	932,468	1,061,840
Meranti	Shorea spp.	11,371,366	7,316,142	7,928,673
Mersawa	Anisoptera spp.	197,151	61,324	69,511
Nyatoh	Palaquium spp.	183,159	67,678	73,344
Palapi	Terrictia spp.	142,856	25,208	96,427
Ramin	Gonystylus bancanus Kurz	489,289	292,176	371,984
Resak	Vatica spp	50,023	14,603	35,865
Other		2,957,357	1,656,329	1,411,753
Mixed Forest Wood		5,170,878	2,494,102	2,310,624
Indonesia		23,950,427	14,074,402	14,823,790

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. 57/MPP/Kep/2/2001 - Dated: February 9, 2001
Effective from February 19, 2001 through June 30, 2001

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	640,000.00	CUM
b. Mixed Forest group	360,000.00	CUM
2. Timber originating from Region II		
(Irian Jaya, Nusa Tenggara, Bali, East Timor)		
a. Meranti group	530,000.00	CUM
b. Mixed Forest group	265,000.00	CUM
b) Other than the meranti & mixed forest groups		
1. The fancy wood group, incl. Sonokeling, Ramin & Ulin	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)	640,000.00	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)	530,000.00	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 diameter (not applicable to groups 1.b.1. and 1.c.)		
a. Logs with diameter < 30 cm	204,000.00	Ton
b. Palisades	10,200.00	Piece
c. Fish-trapping stakes and piles	32,200.00	Piece
d. Beams for flat-car rails	127,200.00	Piece
e. Charcoal of:		
- Mangrove and Meranti	320,000.00	Ton
- Mixed Forest wood	150,800.00	Ton
f. Fire wood	15,000.00	SM
g. Teakwood stump	278,800.00	Ton
III. Logging waste	204,000.00	Ton
IV. Chip raw materials (BBS) shall be logs with small	204,000.00	CUM
diameters which shall be processed into chips		
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	127,200.00	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	42,400.00	Ton
b. Acacia	27,800.00	Ton
c. Balsa	17,000.00	Ton
d. Eucalypthus	27,800.00	Ton
e. Gmelina arborca	27,000.00	Ton
f. Rubber	42,400.00	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	744,400.00	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	81,400.00	CUM
c. Logs of the types pine, resin, sengon, balsa		
Eucalypthus, Jabon, Acacia mangium, rubber and		
Gmelina Arborea		
1. Diameters of 30 cm and above	134,440.00	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	58,500.00	CUM
e. Rasamala	127,200.00	CUM

Note: Until a new Decree on Reference Prices is announced, the above structure remains valid.

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	7598	7988	8728	8742	9055	8370	8891	9483	9524	9385
2001	9488	9914	10460	11675	11375	11440	11360					

Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.
Note: - July 2001 exchange rate is quoted for July 5, 2001.
- BPS data available up to March 2001.

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

Production

Forest Situation

Sustainable forest management continues to be the GOI’s major concern in monitoring logging operations and granting concessionaire licences (HPH-Hak Pengusahaan Hutan). Their policy aims to sustain the tropical rain forest covering its ecological, economic, and social aspects. Logging activities (mainly by private forest concessionaires) may only be carried out within the production and conversion forest areas (covering approximately 99.5 million hectares) based on an annual activity plan (RKT-Rencana Kerja Tahunan). The government (Ministry of Forestry and Plantation) is responsible for assessing and approving the annual plans based on the selective cutting and replanting procedures. Forest explorations are prohibited within the protected forests area (nature/forest conservation) which reportedly covers around 48.8 million hectares. Logging operations must also comply with replanting regulations and pay up to 13 forestry-related fees. The industry indicates that fees total around US$ 35/cubic meter of logs harvested from the designated forest areas, i.e. production and/or conversion forests. The most recent policy requires that logs whether imported or sold domestically are subject to a 10 percent Value Added Tax (VAT). However lack of enforcement and prosecution on illegal logging dilute the effects of these laws. For example, while the official annual allowable cut is 24.0 million cubic meters, total actual annual timber removal (including logs harvested from community forests and illegal operations) is estimated at 56.5 million cubic meters per annum.

Pertaining to the regional autonomy policy which came into effect in 2001, forest concession licencing is now administered by the regional authorities. The provincial governor is authorized to issue forest concession permits of up to 100,000 hectares. This has led to some confusion since regional policy may differ from or even conflict with the central government's policy and potentially allow the industry to avoid implementing sustainable forest management practices. For example, the GOI (central government) has revoked a number of HPHs but local governments have assigned new smaller concessions. Thus, the exact number of HPHs is now difficult to confirm. These types of central government versus regional government issues will most certainly grow as regional governments flex their new muscles.

State companies are still prevalent among the several types of forest exploration ventures in Indonesia. The state companies (Inhutani I-V and Perhutani) produce wood and other forest products such as rattan, gum resin and cayuput oil. The government grants loans (from the reforestation fund collected from logging operations) as incentives for joint operations between private and state companies; private companies and cooperatives; and/or state companies and cooperatives.

Forest Outlook

There are a number of activities that contribute to forest deterioration, these include forest fires, illegal logging, and land conversion to estate plantations. The GOI has taken a serious look at these forest management issues. Strategies have been devised and regulations have also been implemented to limit the deforestation rates which some data show reaches up to 1.6 million hectares per annum. Reforestation programs, including developing timber estates, are required of concessionaires to replace the damage caused by their forest explorations. However, the remoteness of the logged and damaged areas, the high cost of reforestation and the difficulties finding labor have rendered the program unsuccessful.

Solid Wood Products Situation/Outlook

Plywood Situation/Outlook

The prospects for the plywood industry are bearish due to sluggish demand. First, sluggish demand in major importing countries such as Japan and Korea has hurt overall demand. Production continues to slow down as exports decline. Second, tight competition with other plywood producing countries (such as China) is chipping away at Indonesia's market. Exports are estimated down to 7.0 million cubic meters in 2001 from 7.8 million cubic meters in 2000. Industry sources report that they are not too optimistic about 2002, which leads Post to forecast a decline in exports to 6.5 million cubic meters. The industry is facing obstacles such as high labor and overhead costs, and numerous taxes, fees and regulations. Despite the downturn, the plywood industry indicates that fancy plywood production continues to play an important role in supplying higher quality furniture for export. The industry requires fancy temperate hardwood logs and veneer (mainly oak, cherry) from the United States and other wood species from Africa. According to USDA trade data, the total volume of U.S. hardwood veneer exports to Indonesia during the January-April 2001 reached US$ 1.2 million compared to US$ 2.5 million in 2000.

While exports are declining, domestic consumption of plywood is increasing, taking advantage of low prices. Consumption is estimated around 1.0 million cubic meters in 2001 up from only 432,000 cubic meters in 1999 and is forecast to remain the same in 2002 as no expansion in the construction sector is expected.

Log Situation/Outlook

Logging activities remain under strict regulation which stipulates that it may only be carried out by concessionaires within designated areas, i.e., production forests, conversion forests, and timber estates or HTI. However, the newly assigned small HPHs have difficulty complying with the regulations because their annual harvest allocations may only produce a small volume of logs and thus may not be profitable. Those companies and HPHs that do not have processing facilities are the most prone to produce illegal logs.

Overall, Indonesia's log sector is made up of several sub-sectors. The wood working industries need good quality logs mostly harvested from the production forests. The timber estates produce fast-growing species such as acacia mangium and gmelina arborea wood species mainly for the pulp and paper industry. Additional lower or noncommercial logs are produced from the community forests by the people surrounding the HPHs and also from conversion forests by HPHs and/or companies that clear the forest for plantations. Small, newly assigned concessions may not have the same opportunity to produce good quality logs as they are less experienced and have limited capital.

Trade

Overview

Several mechanisms have been established to control exports of logs/forest products including a list of "Check Prices" which are periodically reviewed by the GOI to determine export taxes on logs and other forest products. However, none of these mechanisms is effectively stopping smuggling (especially of logs) and it is widely recognized that smuggling rates of illegal tropical hardwood logs are substantial. Local wood industries strongly recommend that the IMF allows Indonesia to re-institute the ban on log exports in order to protect the forest from over logging and encourage local inductries to produce high value wood products. This is, of course, a controversial suggestion and one that is not likely to be implemented anytime soon.

U.S. Trade

Although total Indonesian wood product imports are substantially lower than the pre-crisis levels and may not turn around at least for a couple of years, wood products -- especially fancy plywood -- still have long term growth potential and are expected to generate revenue. Thus, American hardwood should be able to maintain its customer base for higher quality logs and/or veneer of temperate hardwoods such as oak, cherry and birch. According to U.S. Bureau of Census trade data, total U.S. forest products exports to Indonesia (logs, lumber, plywood and veneer) during 2000 reached US$ 48.1 million, up from US$ 38.5 million in 1999, the highest export level since at least 1970. Exports during January-March 2001 were recorded at US$ 11.5 million, down from US$ 12.7 million in 2000 (January-March). Of the total, U.S. log exports in 2000 were US$ 17.4 million (compared to US$13.6 million in 1999) and it continues to be dominant in 2001 (January-March) reaching US$ 5.5 million (US$ 4.6 million during the same period in 2000). Hardwood lumber exports from the U.S. in 2000 were US$ 13.1 million (a record high since 1970), an increase of 16 percent from US$ 11.3 million in 1999. U.S. hardwood lumber exports for January-March 2001 were US$ 1.8 million, down more than 30 percent from

US$ 2.7 million in 2000. Panel products (including plywood) exports from the U.S. in 2000 were US$ 7.5 million (a record high since at least 1970), up from US$ 6.6 million in 1999. U.S. hardwood veneer exports for January-April 2001 were US$ 1.2 million compared to US$ 2.5 million during January-April 2000.

Official Indonesian trade data shows that imports of veneer (coniferous, hardwood and other woods) in 1999 reached 5.5 million cubic meters valued at US$ 13.1 million. Major suppliers were the United States, Japan and Canada with their shares of US$ 4.3 million (32.5 %), US$ 3.3 million (25.5%), and US$ 1.5 million (11.3%) respectively. Import of veneer down around 4 percent to US$ 12.6 in 2000. Major suppliers were the United States (42.6%), Japan (17.7%) and China (6.5%). Total imports of temperate hardwood logs in 1999 were recorded at US$ 28.4 million dominated by oak species from the United States valued at US$ 24.0 million or almost 85 percent. The value of temperate hardwood logs import were up slightly to US$ 28.7 million in 2000 dominated by imports (mainly oak) from the United States (84.2%). Lumber imports in 1999 were valued at US$ 11.8 million with more than 50 percent of total value from oak species and around 35 percent from other species. Imports of temperate hardwood lumber were up significantly to US$ 20.1 million in 2000 with the United States again the largest supplier (34.4%) follow by China (26.4 %).

Marketing

Despite the government's best intentions to enact forest-saving measures, it openly depends on this sector to generate revenue. Roughly 15 percent of Indonesia's total annual industrial product export value is from processed wood product exports, mainly plywood. To lower costs and increase revenue/profits the wood working industry has been processing logs in more efficient ways, producing more value added wood products such as fancy plywood and furniture and developing new markets. Fancy plywood has the largest opportunity for export and the industry carries on importing fancy logs and veneer -- including those from the United States -- to complement local wood in finished products. Fancy plywood producers are knowledgeable of the quality of American temperate hardwoods and import mainly logs to be sliced and re-exported as plywood.

Fancy plywood producers continue to import fancy logs mainly from the United States and Africa although fancy hardwood veneer importers and distributors are reporting a slow down their business leading to lower stocks and imports. Some American lumber companies have successfully identified local partners to represent their firms and are actively developing markets in Indonesia.

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