TRADE SURVEY 2014

APRIL 2015
I. Introduction

The facilitation of market links is a major component in the assistance to forest companies provided by The Borneo Initiative, next to the facilitation of PHPL and FSC certification. The original aim was to facilitate a trade volume of 75,000 cu.m annually of FSC certified products between Indonesia and the Dutch market, 120,000 cu.m between Indonesia and the EU-market; and another 120,000 cu.m between Indonesia and the USA market. The second objective of the survey was to collect feedback on TBI’s market links activities.

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III. Survey findings

1. Indonesian wood exporting companies

A questionnaire was prepared early in 2014, with comments from partner organisations (Probos specifically). The questionnaire was sent out to 10 Indonesian wood industries via emails in the month of July. By November 2014, we had received 10 responses.

The questionnaire was sent in Bahasa Indonesia and translated for processing into full English. Responses were not always complete, also due to the fact that questions were not always properly understood. Although we followed up the written responses by phone, or face-to-face meetings, not always complete sets of answers could be obtained.

The survey included questions both on industrial production, as well as sales and finance. Plus a few questions to ask feedback on TBI’s market links operations. The choice of respondents was selective, to include specifically those wood industries known to TBI and with FSC chain of custody (CoC), therefore any of the results presented here can not be considered as representative of the general wood export sector of Indonesia.

A. Information on industrial production 2013

Q1: Log input data 2013

• 10 out of 10 respondents answered this question.
• A total intake of 613,000 cu.m of logs, of which 354,000 cu.m or 58% FSC logs.

![Diagram showing FSC and Non-FSC logs intake](image)

Q2: Do you have problems in finding domestic FSC logs?

• 10 out of 10 respondents answered this question. Multiple answers were allowed.
• 5 producers claimed they have no trouble in finding FSC logs.
• The rest provided responses on 'not the right species', 'not enough volume' or 'too expensive'.

![Bar chart showing problems finding FSC logs](image)

Q3: Do you pay a premium price for FSC-logs?

• 7 out of 10 respondents answered this question.
Most producers (7) confirmed that they receive a price premium.

Plywood industries (3) indicated that they pay 5-25% premium for FSC-logs, or 13% on average.

Solid wood industries (6) indicate that they pay premiums between 5 and 30%, or 18% on average.

Q4: Did FSC certification reduce or increase any of your other production costs?

- 7 out of 10 respondents answered this question (others misinterpreted the question).
- Only 1 mentioned that costs increase not at the industrial level, but at the forest concession level only.
- All others (6) indicate that other costs increased too: auditing costs, warehousing costs, higher rejection of logs, chain of custody (tagging), administration.

Q5: Input-output efficiency

- For primary products (veneer, garden/decking, interior decking and rough sawn lumber) the average input-output efficiency is 48% (6 respondents).
- For secondary products (mouldings, furniture and doors) the average input-output conversion factor is 57% (6 respondents).
- For panel products the average input-output conversion factor is 52% (4 respondents).
Q6: What is the destination of the waste materials of the wood processing?
- 9 out of 10 respondents answered this question.
- Waste material is mostly used as landfill or discarded (5 companies).

Q7.1: Production 2013.
- 10 out of 10 respondents answered this question.
- Combined production was 305,000 cu.m of various products in 2013 of which 48% as FSC products.

Q7.2: Did the production level change after FSC certification?
- 9 out of 10 respondents answered this question.
- 7 said their production level remains the same in 2013.
Q8: If any, do you think this difference is related to FSC certification itself?

• As one respondent mentioned, with FSC certification the whole production process is more manageable and better organised and not mixed with non-FSC products.

B. Effect on sales and finance

Q1: Market destinations 2013

• 10 out of 10 respondents answered this question.
• Japan is the biggest market destination for these producers in 2013 with total volume of 116,000 cu.m out of 209,000 cu.m.

Q2: Do you see more interest from FSC buyers after FSC certification?

• 9 out of 10 respondents answered this question.
• 5 do not see more buyer interest, indicating that buyers do not ask for FSC, or do not approach the company (low company profile).
• 4 industries do mention a higher interest from FSC buyers.
Q3: After FSC certification, do you sell to other buyers?

- 9 out of 10 respondents answered this question.
- Most (5) indicated that they have the same buyers as before.
- The other 4 respondents indicate that they sell to new buyers too.

Q4: Did the output sales price change after FSC certification?

- 9 out of 10 respondents answered this question.
- None indicated decreasing prices.
- Part of respondents (4) reported stable prices, e.g. because of less demand (Japan market).
- Others (5) reported improved prices, to compensate for higher costs of productions. Price premiums are in the range of 5-10% (any product).

Q5: Do you get any extra support from the local or national government after FSC certification?

- 8 out of 10 respondents answered this question.
- Most respondents (7) mention there is no extra support from local or national authorities to FSC certified industries.
C. TBI support

Q1: Has TBI been useful to you in terms of market links?

- 9 out of 10 respondents provided an answer.
- A majority (5 respondents) feels TBI support is useful.
- Others indicate that TBI assistance with market links was not substantial (2), or that they were not contacted before (1).

Q2: Will you maintain your FSC certificate in the next coming years?

- 10 out of 10 respondents provided an answer.
- Most respondents (9) indicated that they would maintain their FSC certificates.
- However 1 respondent commented that this would depend on future market demand.

Q3: Do you have other suggestions for TBI?

- TBI to promote Indonesian timber industry abroad.
- TBI to pay more attention to SME industries.
- TBI to increase the number of FSC concessionaires in Indonesia.

2. Forest enterprises

A questionnaire was prepared early in 2014, with comments from partner organisations (Probos specifically). The questionnaire was sent out to 11 Indonesian forest concessions via email in the month of August 2014. By December 2014, we had received 8 responses. The questionnaire was sent in Indonesian language and responses were in Bahasa Indonesia and translated for processing into full English. Responses were not always complete, also due to the fact that questions were not always properly understood. Although we followed up the written responses by phone, or face-to-face meetings, not always complete sets of answers could be obtained.

The survey included questions on harvest levels, log disposal, and the effects of FSC certification on forest production, as well as questions on impacts to sales and finance and on social relations. Plus a few questions to ask feedback on TBI’s market links operations. The choice of respondents was selective, aiming specifically at FSC certified forest concessions and therefore the results presented here cannot be considered as representative of the general forest sector of Indonesia.

A. Harvest information

Q1: Harvest volume 2013

- 8 out of 8 respondents answered this question.
- The total harvested volume harvested from these concessions amounted to 391,000 cu.m.
- A joint production of 377,493 cu.m of roundwood.
- Respondents provided minor information on harvest volumes for non-commercial (lesser known) species.
Q2: Did all harvested logs leave your concessions as FSC logs? Or did some also leave as non-FSC?

- 8 out of 8 respondents answered this question.
- Around 273,000 cu.m or 70% sold as FSC logs.
- 118,000 cu.m are claimed as non-FSC logs.

Q3: Log disposal 2013

a. Logs for industry under the same holding.
   - 8 out of 8 respondents answered this question. We provided option on logs, rough sawn and other. 7 out of 8 companies provided logs to the same holding.
   - Total of 243,000 cu.m logs supplied to holding industry. 66% as FSC logs.

b. Logs sales to third party industries
   - 8 out of 8 respondents answered this question. We provided option on logs, rough sawn and other. 4 out of 8 companies provided logs to third party industries.
   - Total of 148,500 cu.m logs supplied to third-party industries. 77 % as FSC logs.
B. Effects on forest production

Q1: After FSC certification, did the harvesting level change as compared to previous year?
- 8 out of 8 respondents answered this question.
- Five FSC certified companies stated that their harvest levels increased or remained the same in 2013, while 3 FSC certified companies reported a decrease.

Q2: If harvest level changed, is this related to the certification process?
- 8 out of 8 respondents answered this question.
- 1 company stated that the harvest level changed due to the certification process. Its production activities have become more effective and efficient.
- 4 responded that harvest levels have no relation to the certification process.
- The other 3 respondents had no comment.

Q3: Do you think the certification process influences forest re-growth?
- 8 out of 8 respondents answered this question.
- No respondent mentions a negative effect of forest re-growth. 3 companies do not see any difference, while 5 others report a better re-growth.
Q4.a: *How much were the production costs per cu.m log before FSC certification?*
- 3 out of 8 respondents answered this question.
- Production cost for logs is (average) IDR 1,290,000 per cu.m.

Q4.b: *How much after FSC certification?*
- 3 out of 8 respondents answered this question.
- 3 companies claimed production cost for logs is (average) IDR 1,265,000 per cu.m. (which would not suggest any increase).
- Others mentioned an increase of around 40% from the previous operation cost.

Q4.c: *And, how much of that increase (if any) is related to FSC certification?*
- 6 out of 8 respondents answered this question
- 2 companies stated the increasing is (average) 40%
- 1 company mentioned average IDR 50,000/ cu.m.
- 3 companies reported no increase.

C. *Impact to sales and finance*

Q1: *Do you see more interest from buyers after FSC certification?*
- 8 out of 8 respondents answered this question.
Q2: After FSC certification, do you sell to new buyers?
- 8 out of 8 respondents answered this question.
- Most companies (4) stated that they sell to the same buyers as before FSC certification - mostly because these concessions are linked to an industry under the same holding.
- 6 out of 8 respondents answered they received same and new buyers. 1 did not provide comment. Others stated new buyers interested in some kind of processed wood products, which can be exported to IPHHK broader market.

Q3: How much is the average selling price for a cu.m log (please specify per species)? Please also specify the sales point e.g. the contractor, log pond or mill gate price.
- 3 out of 8 respondents answered this question.
- Average logs selling price of meranti at industry USD 128 or IDR 4,314,000 (2 respondents).
- Average logs selling price of meranti, mixed species and kayu indah at log pond USD 345 or IDR 1,599,000 (1 respondent).

Q4.a: Did the selling price change after FSC certification?
- 7 out of 8 respondents answered this question.
Q4.b: How much difference in IDR or %?
   • 1 respondent answered this question: US$ 10 – 20/cu.m difference.

Q4.c: What is the main reason for this? Please explain.

D. Effects on social relations

Q1: Did you add new social activities to improve relations with communities as part of FSC certification?
   • 8 out of 8 respondents answered this question. 5 respondents were affirmative.
   • Improvement of the communication links with the communities, better understanding of the rights and obligations of each side.
   • SIA (Social Impact Assessment)
   • PRA (Participatory Rural Appraisal)
   • Consultations on HCV 5 (Region Critical for Meeting Basic Needs for Local People) and HCV-6 (Areas Critical for Cultural Identity of Local Communities).
   • Public stakeholder consultations.

Q2: Do you think community relations have improved because of the certification process?
   • 8 out of 8 respondents answered this question.
   • All agree that FSC certification has improved the relation.

Q3: Are relations with local/national government easier after FSC certification?
   • 8 out of 8 respondents answered this question.
   • 2 respondents are negative:
     o FSC certification does not impact the relationship between the company and the government because it is only voluntary and no reward whatsoever from the government if implemented. In contrast, government actively facilitates several licensing activities related to the mandatory SFM certification.
   • 6 respondents affirmative:
     o The relation with local and national government has become easier; the companies are the example of sustainable forest management in Katingan district.
Q4: Do you get any support from the local/national government after FSC certification?
- 8 out of 8 respondents answered this question.
- 4 respondents indicated that government is supportive, in particular from the forestry services in the provinces and districts.
- On the other hand, 4 respondents disagree:
  - Local and national government agencies appreciate forest companies that have been certified FSC but actual, tangible support is only provided for mandatory certification (SVLK).
  - The right of self-approval of annual work plans previously granted to FSC certified companies, now applies to PHPL-certified companies.

E. TBI support

Q1: Will you maintain your FSC certificate in the next coming years?
- 8 out of 8 respondents answered this question.
- All respondents (8) indicated they would maintain their FSC certificates.

Q2: Do you have any suggestions for TBI? Please explain.
- 7 out of 8 respondents answered this question.
- Continue the program beyond 2015.
- Extend the range of activities that can receive funding (for example, to increase programs related to Community Development).
- TBI not to limit the use of the support agreement up to the moment of achieving FSC certificate, but also the period after the company has obtained the certificate.

3. Dutch wood importing companies

A questionnaire was prepared early in 2014, after circulation among buyers and partner organisations (Probos specifically) for comments. The questionnaire was sent out to 12 Dutch companies via email in the month of October 2014. By November 2014, we had received 9 responses, albeit not always with answers to all questions.

The scope of the survey was limited, consisting of four trade related questions only, plus one general question to ask feedback on TBI’s market links operations. Also, the choice of respondents was selective, therefore any of the results presented here cannot be considered as representative of the general timber sector.

To assess progress towards this target, a survey was conducted among Dutch wood trading companies, which maintain regular contact with The Borneo Initiative and participate in the trade events organized by APHI and The Borneo Initiative.

Q1: How has trade with Indonesian FSC-certified timber companies developed in the past 5 years?
- 9 out of 9 respondents answered this question.
Only 1 indicated that trade had decreased – this company saw many Indonesian close down over the past years, and has shifted its trade to Malaysia where they now source PEFC materials.

4 indicated that trade volume was stable.

4 indicated that trade had increased. Those reporting growth, said that there is now better availability of FSC products in Indonesia, whereby certified products replace the former non-certified orders.

Q2: Can you mention your major constraints in sourcing more FSC-certified timber products from Indonesia?

- 9 out of 9 respondents answered this question, multiple answers were allowed.
- Most respondents (5) indicated a lack of availability of the right species (e.g. no FSC-certified merbau available yet), the higher cost as compared to other suppliers (3) or lack of market demand (2).
- Few or none respondents mentioned a reduction in market preference for FSC-certified wood products, nor that quality is too low.

Q3: Do you pay/get a premium price for FSC-certified Indonesian timber products?

- 9 out of 9 respondents answered this question.
- All buyers (9) indicated that they pay a premium for FSC certified products.
- Plywood buyers (2 respondents) indicate that a premium is paid from 3-4%.
- Importers of solid wood products (7) indicate that they pay 5-15 % premium, or 10% on average.
Q4: **Use of Indonesian certified timber products**
- Only 4 out of 9 Dutch importers provided data on volumes traded.
- A combined trading volume of 88,000 cu.m annually, of which 68,000 cu.m tropical.
- Of this, a volume of 28,000 cu.m is imported annually from Indonesia, of which 16,000 FSC certified or 58%.

Q5: **Have you come into contact with new certified timber producers from Indonesia/international buyers via The Borneo Initiative?**
- 9 out of 9 respondents answered this question.
- 4 indicated that they have not made new contacts via The Borneo Initiative, mostly via the TBI trade events (3) or via direct mediation by the TBI team (1).
- 5 respondents indicated that they did make new contacts via mediation of The Borneo Initiative.

**Recommendations**
When asked for any suggestions for The Borneo Initiative, these responses were given:
- Support producers to build up stocks especially in solid wood products.
- Forest concessions to select logs by species instead of selling lots in bulk.
- Reduce the price difference.
- Increase volume, availability of certified logs (e.g. merbau).
- Link producers to new customers.