ASIA-INVEST BUSINESS PRIMING FUND
MARKET-PLACE MONITORING SCHEME

Project Title: Market Study on Wood Sector in Indonesia, Malaysia, Thailand and Vietnam
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EXECUTIVE SUMMARY

INDONESIA

Furniture

Indonesian furniture industry produces a variety of goods such as cupboards, chairs, shelves, beds and tables. In their production process medium and large scale furniture producers mostly use machinery, usually as integrated industry to other wood working industries; small scale producers are labour intensive in their production process (handicraft products).
All furniture manufacturers use various kinds of woods, like sawn timber, teak, ramin, mahogany, rubber wood, plywood, particle board and medium density fibre board (mdf).

The production of furniture from year to year always increases from 3,5 million meter cubic in 1993 to 4,1 million meter cubic in 1998, with a growth of 16.5%, in average 2.7 % per year.
In 1994, Indonesia's wooden furniture dropped to 1 million meter cubic (-60%), then it grew again in 1995 and in 1996. In 1997 it rose by 1.3%, at volume 1.6 million cubic meters, despite the first signals of the monetary crisis. But in 1998, it declined to 1.5 million cubic meters due to the slow down of export and local demand affected by the crisis.

Indonesia exports wooden furniture mostly to Japan, the United States of America and West Europe. The other export destination countries for Indonesia's wooden furniture are South Korea, Taiwan and Middle east Countries.

Major suppliers for Indonesian imported wooden furniture and its parts come from the United States of America, Italy, Spain, Japan, Taiwan and Australia. With the growth of the world's furniture imports also Indonesia's furniture exports have continued to increase.

Furniture is one of the most badly hit sectors by the monetary crisis of Indonesia. The operators estimate a contraction of 70% to 90% of the import market of the European furniture supply of high quality in 1998 and 1999.
Most of the operators are pessimistic about the future and forecast to raise themselves again from the crisis not before 3-4 years.

Woodworking machinery

In their production process, medium and large scale furniture producers mostly use machinery, usually as integrated industry to the moulding, window / door frame and other wood working industries, while small scale producers mostly use labour intensive systems in their production process (handicraft products).

The market situation for wood working machinery is better than expected in Indonesia. Through the devaluation of the Indonesia rupia many wood working companies expanded their exports increasing their production capacity. Therefore many orders have been placed despite the generalised crisis of the country.

The majority of woodworking machinery sold in Indonesia comes from Taiwan, some from China and South Korea. European suppliers (mainly Italy and Germany) account for approximately 10% of total imports. The difference in price from Taiwanese machinery to European machinery is up to five times, but obviously the European quality is much appreciated, especially for export production. For the local production the Taiwanese quality is judged sufficient and has therefore a good market.

The local production is focused on the most simple machinery and is of no threat to European Imports.

Wood

Indonesia's earnings from its log exports increased in 1998 to US$11.19 million, from only US$ 41,000 in 1997, following the lifting of the ban on the export of the commodity. The Central Bureau of Statistics (BPS) reported that timber topped the list of agricultural exports in terms of value in 1998. Under trade ministerial decrees, log could be exported provided its export does not threaten the country's forest conservation efforts.
The forestry and plantations minister has thus been authorized to set the quantity of log exports every year.

The Indonesian exporters are available for export a wide range of timbers and woods. In particular, they ask for very precise specifications (type of wood, size of sawn timber, packaging, quantities) to make a spot quotation. The prices of wood logs and swan timber vary from to day to day, so that it is impossible to get a price list.

Conclusions and recommendations

The main advantages the Indonesian manufacturers can offer are the extremely low labour cost together with a well educated workforce in the woodworking industry, relatively cheap raw material, great variety and good quality of tropical wood.

Possibilities in co-operating with European partners in the field of marketing and production can be seen in the following product ranges (ranked according to the chances of realisation): garden and indoor furniture made from various solid tropical woods (e.g. Teak or Mahogany), and wooden components to be supplied to European producers of solid furniture and kitchens.

Most prospective market fields are seen in products such as components for furniture, mouldings for windows and garden furniture, where the demand on the European market is still growing with rates above 30-50 % p.a.
The majority of the selected companies covers the above mentioned products, and most of them can met the market demand regarding quality standard, tolerance, design, order handling and price level.

The Indonesian market for high quality European furniture has still small dimension and it is not possible to forecast a rapid recovery in the short term.
But despite this, in memory of better times, the buyers and agents we met showed a certain interest in our proposed European companies and they are asking for documentation and price lists. For the time being the Indonesian buyers-agents don't feel to commit to guarantee any collaboration and buy even the minimum quantities, but they agree to include those catalogues in their offer for future projects.

All Indonesian companies we met are interested to export their products to Europe and to supply half finished products. The main products offered are: garden Furniture and rattan furniture and office furniture. Of special interest are the office furniture products with very interesting prices.
The market situation for woodworking machinery is better than expected in Indonesia, since many orders have been placed despite the generalised crisis of the country.

In Indonesia exist circa 1.000 potential clients for woodworking machinery, most of them are very small workshops.
Most of woodworking machinery sold in Indonesia comes from Taiwan, and European suppliers (mainly Italy and Germany) account for approximately 10% of total imports. Taiwanese machinery are much more cheaper than to European ones, with also a lower quality level, which is considered sufficient and has therefore a good market.

With reference to wood export, our suggestion is to establish a long term collaboration with one (or two) trader(s) to develop mutual trust and to become important for its turn over in order to get the best possible service. The policy to buy from many sources does not pay back in the long term because of quality problems.