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Pacific Horticultural and Agricultural Market Access Program (PHAMA)

APAC

Markets Study for Solomon Islands Timber Exports

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ABBREVIATIONS

Abbreviation	Description
ACIAR	Australian Centre for International Agricultural Research
AUD	Australian dollar
CBSI	Central Bank of Solomon Islands
CIF	Cost Insurance and Freight
FJ-Lam	Finger Jointed Laminated
FOB	Free on Board
GTIS	Global Trade Information Services, Inc.
IWG	Industry Working Group
m^3	Cubic metres
MOFR	Ministry of Forestry & Research (Solomon Islands)
N/A	Not applicable
NZD	New Zealand dollar
NZITTG	New Zealand Imported Tropical Timber Group
PARDI	Pacific Agribusiness Research for Development Initiative
PET	Polyethylene terephthalate
PHAMA	Pacific Horticultural & Agricultural Market Access Program
PT&I	Pacific Islands Trade and Invest
SBD	Solomon Islands dollars
SICCI	Solomon Islands Chamber of Commerce and Industry
SINU	Solomon Islands National University
TBD	To be determined
URS	URS Australia Pty Ltd
VATA	Value Added Timber Association
VETE	Village Eco-Timber Enterprises

EXECUTIVE SUMMARY

The Australian Government's Pacific Horticultural & Agricultural Market Access Program (PHAMA) engaged URS Australia Pty Ltd (URS) to undertake a study of export markets for timber from Solomon Islands. This report presents the outcomes of this study and recommends a set of proposed initiatives to strengthen the Solomon Islands timber export industry.

Context for Sawn Timber Exports

Forest product exports are the largest export industry in Solomon Islands. Unprocessed round logs account for the large majority of trade, with an annual trade in 2013 of SBD1.5 billion (approximately AUD240 million). This level of harvest is unsustainable and Solomon Islands Government policy is to diversify and increase the level of value-added processing of timber for export.

Despite being much smaller than the log export sector, sawn timber is a significant sector for the Solomon Islands economy, with its exports being comparable in value to the cocoa and coconut industries. In 2013, the value of sawn timber exports was estimated as being SBD81.5 million (AUD13 million).

Production and processing of sawn timber is also a significant employer: it can be reasonably estimated that more than 1,500 people are directly employed in sawmills and timber yard businesses. In addition, many more are also engaged, directly and indirectly, in harvesting, shipping and transport, and associated businesses such as firewood production.

Sawn Timber Supply Chain

Production of timber is commonly village-based and involves landowners harvesting trees and undertaking primary processing on-site (sawing a log into square 'flitches' or large dimension planks) before selling to sawmills who undertake further processing for sale into either domestic or export markets.

There are approximately 10–15 dedicated sawmill and timber export businesses, most of which are located in Honiara, with some also in Noro. In addition to these dedicated timber businesses, at any one time there are also several smaller operations that export timber on a periodic or occasional basis.

Current timber exports are mainly to New Zealand and Australia, as well as to Asian markets, including China, Philippines and Taiwan. Timber is generally exported containerised as rough sawn timber, which is then further processed by importers and end users to meet market specifications and product needs, typically for use in building, cabinetry and decking. Vasa (*Vitex cofassus*) and Rosewood (*Pterocarpus indicus*) are the two main species exported, with smaller volumes of Kwila (*Instia bijuga*) and Akwa (*Pometia pinnata*) also exported.

Approach for this Work

The sawn timber export industry has had challenges relating to lack of volume and consistency of supply, variable timber quality and container packing methods, along with concerns relating to sustainability and legality requirements.

PHAMA has previously undertaken work to support the timber sector in being able to address timber legality assurance requirements for the Australian market.

In this context, it was identified that work was required to: determine what new or improved market opportunities may exist as result of that legality assurance work; clarify specific market requirements regarding quality to inform potential improvement by Solomon Islands timber industry; determine what opportunities may exist for supply of existing timber products to new customers or markets; and identify any opportunity to supply new products.

This work was conducted between April and June 2014. It incorporated consultations with timber importers in New Zealand and Australia and with timber exporters in Solomon Islands. Other key stakeholder groups consulted included Solomon Islands Government agencies, donor agencies and commercial banks.

A workshop was held in Honiara on 26 June 2014 to discuss findings with stakeholders and subsequently the sawn timber industry working group (IWG) met to identify possible initiatives to strengthen the industry.

Market Situation

The size and value of Solomon Islands timber exports is growing. As noted above, the total value of trade in sawn timber exports during 2013 was around SBD81.4 million, which represents a 58% value increase over the past 5 years. This reflects, in part, an increasing unit cost for timber from Solomon Islands, which currently sells into Australian and New Zealand markets for around SBD6,000 to 7,000 per cubic metre on a Free on Board basis.

Australia and New Zealand are the largest and most ‘mature’ markets for Solomon Islands timber and are currently of similar size in terms of volume and value. Both of these markets have increased in volume sold over the past 10 years but the largest increase has been the volume of timber exported to New Zealand. Species preferences differ between these two markets, with data indicating that, in 2013, New Zealand imports of Solomon Islands timber were 92% Vitex and 7% Kwila, whereas Australian imports from Solomon Islands were 63% Rosewood, 22% Vitex and 5% Kwila.

Relative to the Australian and New Zealand markets, the volumes sold into Asian markets have been more variable over time. The unit prices of Solomon Islands timber sold into Asian markets also tend to be significantly lower than Australia and New Zealand prices, reflecting differing product preferences and quality requirements in these Asian markets.

Other markets for Solomon Islands timber have included Vanuatu and New Caledonia. These markets have also been somewhat variable over time and have not typically imported from Solomon Islands on a consistent basis.

The main market competitors for timber from Solomon Islands are hardwood species from other nearby tropical countries, particularly Malaysia, Indonesia and Papua New Guinea. The nature of this competition varies for specific products and species and is subject to trends in international timber markets that influence availability, price and attractiveness of alternative products.

Outcomes of Exporter and Importer Consultations

Through the consultations with exporters and importers, a range of valuable feedback was collected on factors that were perceived to be limiting the success of the Solomon Islands timber industry.

The perceptions of both exporters and importers generally centred on a common set of factors or issues, which are briefly outlined below:

1. Volume of supply – importers generally would like to access a greater volume of timber from Solomon Islands.
2. Consistency of supply – exporters and importers both have difficulties in consistently sourcing the desired species.
3. Business relationships – difficulties have been experienced in communication and mutual understanding of business requirements.
4. Quality of timber – the quality of timber from Solomon Islands is variable, which can lead to rejection of orders and wastage through re-processing.
5. Loading of timber – timber is typically loaded manually into containers; this can result in timber shifting during transport and associated additional time and cost to unload at the destination.
6. Legal origin and timber sourcing practices – there is a need to meet legislative and market requirements for assurance of legality and, in some cases, sustainability.

Proposed Initiatives

Drawing on perspectives of exporters and importers, the sawn timber IWG discussed opportunities for the Solomon Islands industry to improve value or business effectiveness. The IWG has identified a suite of activities where further work to strengthen the timber export sector could be considered. These activities have been grouped under the following broad initiatives:

- Timber quality improvements;
- Enabling business environment;
- Timber marketing support;
- Industry body development; and
- Legality verification and forest certification support.

Table ES1 outlines these initiatives and their associated key activities and component tasks, for consideration by PHAMA and other donor programs as appropriate.

Table ES1 Priority initiatives to support development of the Solomon Islands timber sector

Initiatives	Key activities	Component tasks	Priority[1]
Timber quality improvement	Timber grading rules	• Facilitate development and support implementation of a national system for timber grading in Solomon Islands (utilising existing draft grading rules): – Engage with domestic industry (producers and sawmillers). – Engage with representatives of importing industry. • Design and conduct awareness raising program relating to grading rules, including training in timber packing and loading systems.	2
	Timber processing facilities	• Assess use and condition of timber processing machinery and existing timber handling practices, including requirements for saw doctoring and other machinery maintenance needs. • Define skill enhancement requirements and design complementary training program • Explore opportunities for collaboration with importers as part of implementation.	3
Enabling business environment	Access to finance	• Explore provision of possible business support facilities that could work with the timber sector to develop improved infrastructure and processing capabilities through facilitating improved access to finance: – Outline potential business support requirements and design program of business support activities. – Coordinate maintenance, review and reporting of program activities.	7
	Improvements in business skills	• Develop and facilitate training or mentoring programs to improve skills within the timber industry in business planning and management.	6
Timber marketing support	Market information mission	• Facilitate a market education mission of Solomon Islands exporters to key markets in Australia and New Zealand to better understand requirements of existing markets.	1
	Establish market information services	• Develop provision of timber market information services to Solomon Islands producers, processors and other stakeholders. • Design a process to provide timber markets pricing information services within Solomon Islands: – Confirm data to be collected. – Confirm target audience and users of the information. – Confirm approaches to delivering market information. • Consider appropriate central agency for tracking, collation and communication of information. Provide initial support to establish necessary systems and processes.	4

Initiatives	Key activities	Component tasks	Priority[1]
	Market promotion activities	• Develop market promotion activities to capitalise on recognition of the Solomon Islands timber legality system under Australian legislation.	5
		• Explore potential for and encourage trade of alternative timber species through engagement with importers.	
		• Further investigate and explore possible new markets and value-adding, including: – Deriving value from currently non-valued products – Further processing to add value to current products – Exploring alternative mainstream markets.	
Industry body development	Further development of timber IWG	• Investigate options and appropriate structures to facilitate further development of timber IWG. • Facilitate endorsement of preferred option through stakeholder consultation with industry and government. • Develop articles of association, and operating protocols. • Explore funding support and development of secretariat capacity.	8
Legality verification and forest certification support[2]	Support development of timber traceability systems	• Scope and develop systems to enable full traceability of timber along supply chains: – Scope and develop cost effective system of log marking to enable tracing of timber from the source through to sawmill delivery (e.g. log marking with corresponding felling/milling licence). – Scope systems that may be used by sawmill enterprises to trace timber through processing to loading for export. – Develop guidelines and other tools required to facilitate the adoption of systems.	10
	Support for forest management certification	• Provide efficient and viable certification support services to facilitate greater uptake of forest management certification by Solomon Islands producers. Possible approaches include: – Supporting specific business to prepare for certification, through gap assessments or financial support – Scoping and developing frameworks that could facilitate greater uptake of certification by small producers. – Facilitating training programs in sustainable forest management and certification for small producers, in conjunction with the Ministry of Forestry & Research's existing programs in this area.	9

1. Priority ranking as ascribed by the Timber IWG during meeting on 28 August 2014.
2. The two activities proposed under the legality verification and forest certification support initiative were assigned priority 9 and 10 by the Timber IWG. Since making these priorities, feedback from some importers has indicated their desire to source certified or third party verified legal material. Given this, there may be scope to facilitate ongoing communication between importers and exporters with potential to re-prioritise these activities as appropriate.

1 INTRODUCTION

The Australian Government's Pacific Horticultural & Agricultural Market Access Program (PHAMA) engaged URS Australia Pty Ltd (URS) to undertake a study of export markets for timber from Solomon Islands. This report presents the outcomes of this study and recommends a set of proposed initiatives to strengthen the Solomon Islands timber export industry.

1.1 Background

Forest product exports are the largest export industry in Solomon Islands. Unprocessed round logs account for the large majority of trade, with an annual trade in 2013 of SBD1.5 billion (approximately AUD240 million). Current levels of logging are widely recognised as being unsustainable, and revenues from log exports are predicted to decline sharply over the coming few years. Solomon Islands Government policy is to diversify and increase the level of value-added processing of timber for export.

Compared to round logs, a relatively limited volume of sawn timber is exported. In 2013, the value of sawn timber exports is estimated as being SBD81.5 million (AUD13 million), approximately 5% of the foreign exchange generated by log exports. The value of domestic timber sales is not well quantified, but it is known to add significantly to the total value of the sector.

Despite being much smaller than the log export sector, sawn timber is a significant sector for the Solomon Islands economy, with its exports being comparable in value to the cocoa and coconut industries. Production and processing of sawn timber is also a significant employer: it can be reasonably estimated that more than 1,500 people are directly employed in sawmills and timber yard businesses. In addition, many more are employed, directly and indirectly, in harvesting, shipping and transport, and associated businesses such as firewood production.

Current timber exports are mainly to New Zealand, Australia, Philippines and Taiwan. Timber is generally exported containerised as rough sawn timber, which is then reprocessed by importers and end users to meet market specifications and product needs, typically for use in building, cabinetry and decking. Vasa and rosewood are the two main species exported.

Previous Work

PHAMA has previously implemented a series of activities to support the market access position of the Solomon Islands timber export sector.

This work was initially prompted by the introduction in international markets of requirements relating to timber legality. Of particular importance to Solomon Islands is that Australia introduced the *Australian Illegal Logging Prohibition Act* in November 2012, which will come into full effect from November 2014. Additionally, in New Zealand, the timber importing industry has sourcing policies in place that require demonstration of timber legality as a minimum requirement for market entry.

Under the PHAMA activity SOLS10, *Development of 'sustainable forestry' certification for exports of value-added forest products*, three stages of work have been undertaken since October 2012 to support the industry's market access position and capacity to meet these incoming market requirements.

Key outcomes of this work to date have included:

- Establishment of the Timber Industry Working Group (IWG), comprising representatives of the Ministry of Forestry and Research (MOFR) and the timber industry. This group has worked to develop and endorse PHAMA's activities in the timber sector.
- Development of legality assurance guidelines for Solomon Islands, which describe the process and approvals necessary for legal production, processing and export of timber from Solomon Islands.
- Facilitation of engagement with the Australian Government on timber legality, leading to the recent development and co-endorsement of a Country-Specific Guideline, which will form part of the Regulation to the Australian legislation and help ensure ongoing access for Solomon Islands to the Australian and other international markets.
- Ongoing work with MOFR to strengthen monitoring and verification of timber production, processing and export.

This Timber Export Market Study

Through the course of this previous work, government and timber exporters raised several factors beyond timber legality that affect the industry. Additionally, a preliminary survey of importers in Australia and New Zealand conducted as part of the SOLS10 Stage 1 activity (see PHAMA Technical Report 42) identified quality and consistency of supply as significant issues regarding timber from Solomon Islands, along with concerns about maintaining market access due to new legality assurance requirements being introduced by Australia.

In this context, the IWG identified that additional work was required to: determine what new or improved market opportunities may exist as result of that legality assurance work; clarify specific market requirements regarding quality to inform potential improvement by Solomon Islands timber industry; determine what opportunities may exist for supply of existing timber products to new customers or markets; and identify any opportunity to supply new products.

The need for this work was subsequently endorsed by the Solomon Islands Market Access Working Group.

1.2 Overview of the Project

This work was conducted between April and June 2014. It incorporated consultations with timber importers in New Zealand and Australia and with timber exporters in Solomon Islands. Other key stakeholder groups consulted included Solomon Islands Government agencies, donor agencies and commercial banks. A full consultation list is provided in Appendix D.

The Tasking Note identified three key objectives of this market study, which were to:

1. Provide guidance to the timber industry and MOFR on market opportunities for Solomon Islands sawn timber and timber products exports;
2. Provide guidance to the timber industry and MOFR on relevant market requirements in regard to quality and product specifications; and
3. Determine appropriate activities to assist the Solomon Islands timber industry in meeting market needs and/or realising opportunities for improved export returns.

The project team conducted in-person consultations with timber exporters in Honiara, followed by further in-person consultations with importers in the key international markets of Australia and New Zealand. Additional consultations were then conducted in Honiara between 20–27 June 2014, which allowed for more detailed stakeholder discussions and exploration of the issues affecting the timber sector. A workshop was held in Honiara on 26 June 2014 to discuss findings with stakeholders and subsequently the IWG met to identify possible initiatives to strengthen the industry. These proposed initiatives form the basis for the discussion in Chapter 6 of this report.

Survey methodology

Survey questionnaires were developed to guide consultations with both exporters and importers. Prior to their use, these questionnaires were reviewed and endorsed by the IWG to ensure that the consultations aligned with the expectations of the Solomon Islands timber industry. Input into the survey content and structure was also sought from the Pacific Agribusiness Research for Development Initiative (PARDI), with reference to their current timber related activities. Table 1-1 below outlines the key topics covered by the exporter and importer surveys.

Table 1-1 Key topics covered by importer and exporter surveys

Survey of exporters	Survey of importers
• Nature of business • Relative focus on domestic and export markets • Grading and processing undertaken • Species supplied and their key markets • Perceptions of comparative advantages of Solomon Islands timber • Commercial terms and sale arrangements • Legality and sustainability assurance • Perceptions of new markets or opportunities	• Nature of business • Volume, grading, species and dimensions of purchases from Solomon Islands • Level of satisfaction with Solomon Islands products • Key international competitors for Solomon Islands timber • Legality and sustainability assurance – awareness and importance to business • Key challenges of sourcing timber from Solomon Islands • Potential future product and market opportunities for Solomon Islands

The full survey questionnaires for both exporters and importers of Solomon Islands timber are attached at Appendix A and Appendix B, respectively.

1.3 Report Outline

This report presents the outcomes of this market study and recommends a set of proposed initiatives to strengthen the Solomon Islands timber export industry. This report comprises:

- An overview of the domestic and export markets for Solomon Islands sawn timber (Chapter 2);
- A summary of the perspectives of Solomon Islands timber exporters in relation to international markets (Chapter 3);
- A summary of the perspectives of timber importers in Australia and New Zealand in relation to Solomon Islands timber (Chapter 4);

- A discussion of opportunities arising from these consultations and market information for industry development and potential associated areas of donor support (Chapter 5); and
- An outline of a proposed set of initiatives and associated activities to capitalise on these opportunities and strengthen the Solomon Islands timber sector, for consideration by PHAMA and other donor programs (Chapter 6).

2 SOLOMON ISLANDS FOREST INDUSTRIES

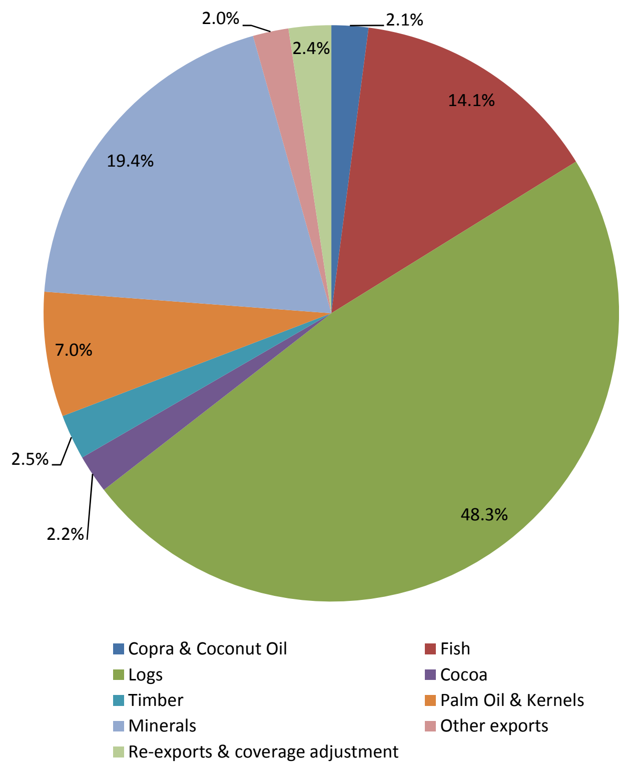
This chapter outlines the current status of log exports, the sawn timber industry and sawn timber exports from Solomon Islands.

The forest industry is of central importance to Solomon Islands, both in terms of government revenue and at a local level where forest management forms an integral part of subsistence rural livelihoods. The forest industry is largely driven by the export of unprocessed round logs, which are exported directly from the harvest location. In comparison to log exports, the trade of timber exports is relatively small.

The proportional value of major Solomon Islands export commodities is presented in Figure 2-1. During 2013, the forest industry represented just over half of the export trade of goods. This was made up primarily of log exports (48%) valued at around SBD1.5 billion (AUD240 million), with sawn timber contributing a further SBD81.5 million (AUD13 million) or 2.5% of total goods trade for the year. Over the last five years, the highest level sawn timber exports as a proportion of total trade occurred in 2009, when sawn timber exports were around 4% of total trade. Outside of forestry, the largest contribution to export trade in 2013 came from the fishing and mining industries, which contributed 19% and 15%, respectively.

In the context of other sectors with similar rural production bases and supply chains, sawn timber accounts for a similar proportion of export revenue (2.5% of total export revenue) to that from exports of cocoa (2.2%) and coconut products – copra and oil (2.1%). As noted above, domestic sales of timber are also a significant component of the industry and would add significantly to the total value of the sector.

Figure 2-1 Solomon Islands export value in 2013 (percentage of total)



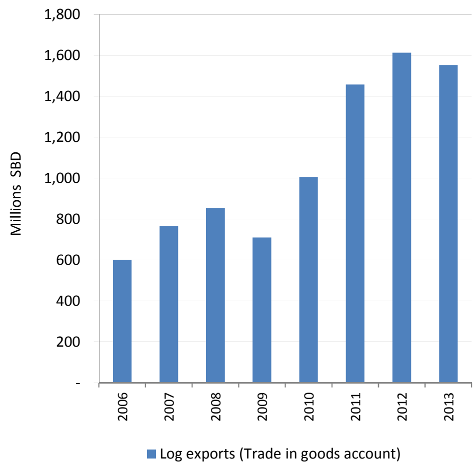
Source: Central Bank of Solomon Islands (CBSI)

2.1 The Log Export Sector

The export of round logs is the largest single contributor to the national economy. In 2013, log and timber exports represented around 50% of foreign exchange receipts and around 17% of total government revenues. Figure 2-2 depicts the value of Solomon Islands log exports between 2006 and 2013. The value of logs exported from Solomon Islands in 2013 was more than SBD1.5 billion.

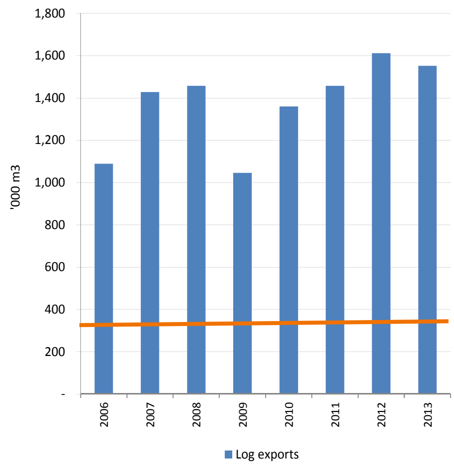
The volume of logs harvested in recent years is recognised as unsustainable. In 2006, the Solomon Islands Forestry Management Project estimated that a sustainable yield for national log harvests would be in the order of 300,000 m^3 per annum. Figure 2-3 shows log export volumes since 2006 have averaged around 1.3 million m^3 per annum. The volume of logs harvested in 2013 was more than 1.5 million m^3, representing an annual harvest five times the sustainable level set in 2006. This rate of harvesting has led to uncertainty around ongoing resource availability and the continuation of log supply. The associated environmental impacts and political, social and economic ramifications for the country warrant serious consideration.

Figure 2-2 Annual revenue from log exports from Solomon Islands



Source: CBSI

Figure 2-3 Annual log export volume for Solomon Islands



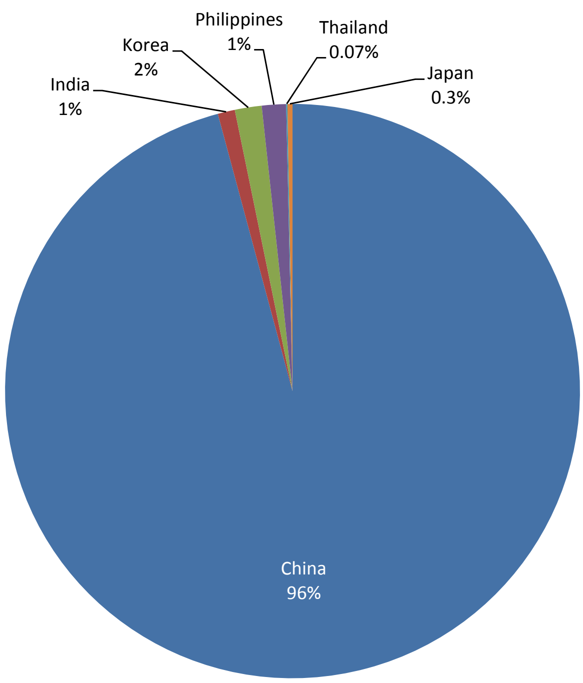
Source: CBSI

Note: Orange line denotes an indicative sustainable harvest rate

China continues to be the largest destination for exported logs, taking approximately 96% of the logs exported during 2013. Figure 2-4 shows the international markets for Solomon Islands logs in order of foreign exchange receipts (trade in goods account) earned during 2013.

China import statistics report receiving a greater volume than those reported in the Solomon Islands, with Chinese statistics indicating that Solomon Islands supplied 1.7–2 million m^3/annum of round logs in the past three years, making Solomon Islands the second largest exporter of hardwood logs to China after Papua New Guinea. This is a substantive difference between the two sources of data. Other major markets exporting hardwood round logs to China include Myanmar, Russia and various central African nations.

Figure 2-4 Destination of Solomon Islands round log exports, by revenue (2013)



Source: CBSI (trade in goods account)

2.2 The Sawn Timber Sector

Sawn timber is a significant sector for the Solomon Islands economy, with its exports being comparable in value to the cocoa and coconut industries. Production and processing of sawn timber is also a significant employer. It can be reasonably estimated that more than 1,500 people are directly employed in sawmills and timber yard businesses. In addition, many more are also employed, directly and indirectly, in harvesting, shipping and transport, and associated businesses such as firewood production.

Current timber exports are mainly to New Zealand, Australia, Philippines and Taiwan. Timber is generally exported containerised as rough sawn timber, which is then reprocessed by importers and end users to meet market specifications and product needs, typically for use in building, cabinetry and decking. Vasa (*Vitex cofassus*) and Rosewood (*Pterocarpus indicus*) are the two main species exported, with smaller volumes of Kwila (*Instia bijuga*) and Akwa (*Pometia pinnata*) also exported.

2.2.1 *The Timber Supply Chain*

Production of timber is usually village-based and involves landowners harvesting trees and undertaking primary processing on-site before selling to sawmills who undertake further processing for sale into either domestic or export markets. The main alternative source of timber supply is through the processing of timber that is harvested by a logging operation, which can occur either at the site or after shipping to a sawmill.

The proportion of timber that originates from these two supply routes is difficult to quantify, although the majority appears to come via village-based operations. This is based on the known sources of supply for the main sawmill businesses and the main species currently used in timber processing (Vasa and Rosewood), which typically are not the species targeted by log export operations.

A third supply route is for timber that is harvested, processed and then used locally for village housing. For many parts of Solomon Islands, the large majority of timber used would be sourced in this manner.

An overview of the typical supply chain for Solomon Islands sawn timber production and export is set out below.

Figure 2-5 Outline of supply chain for Solomon Islands timber

1. Timber harvesting Harvesting occurs in locations throughout the country and is done by chainsaw. Varying levels of mechanisation are used in timber extraction depending on the scale of the operation, ranging from carrying timber by hand to a roadside or at the beach, through to the use of heavy machinery from within the forest. Timber harvesting can broadly be considered as either large (industrial scale operations with the primary objective of exporting round logs) or small scale (community or village based operations).
2. Primary processing Primary processing of logs is often done locally, either in the forest or at a local aggregation point, using portable mills or chainsaws. Such processing is similar in nature whether undertaken by small scale or larger scale operations. This primary product is a rough sawn large section timber.
3. Shipping to aggregation points and sawmills Where primary processing has been done locally, flitches (squared logs) are shipped to Honiara or Noro (in the Western Province) for further processing. Where no local primary processing has been undertaken, logs are shipped to Honiara or Noro for processing by sawmills.
4. Secondary domestic processing Further processing of flitches or logs is primarily undertaken in Honiara. Timber exports from Solomon Islands are currently limited to predominantly rough sawn timber. While Solomon Islands' sawmills have capacity to produce timber flooring and moulded products, these are currently sold to the domestic market.
5. Preparing for exports Sawn timber is shipped in containers, which are stacked on site at the relevant sawmill or timber yard. There are two container ports in Solomon Islands: Noro and Honiara. At present, most timber is exported from Honiara, with relatively lower volumes from Noro.

Sawmilling and Sawn Timber Export Operations

Timber processing for export markets typically involves sawing a log into the square before further 'rough' sawing into approximate standard dimensions for packaging into containers.

Following shipping, importers then conduct further primary processing and dressing of the timber before on-selling or marketing as a final product.

There are approximately 10–12 timber processors and exporters, most of which are located in Honiara (see *Box 1*). Most of these operations receive rough sawn timber or logs and undertake further processing to produce products such as internal mouldings, flooring and wall panelling. Nearly all of these better-finished products are sold in the domestic market, while almost all exported product is rough sawn timber.

In addition to these dedicated timber businesses, at any one time there are also several smaller operations that export timber on a periodic or occasional basis. Such businesses are predominantly in Honiara and might export up to around 5 containers in a given year, although their production levels appear to vary considerably over time. It is understood that these businesses are often established on a temporary or casual basis when supply and an opportunity to export is available. Initiating and maintaining engagement with such businesses is difficult due to the often temporary and sporadic nature of their operations.

Box 1 – Sawn timber exporters and processors

Sawn timber processors and exporters based in Honiara and Noro include the following:

- GoodWood
- Hatanga Group Ltd
- John Wesley Timbers Ltd
- Lagoon Eco Timber
- Pacific Export Alliance Group
- Pacific Timber
- Priceworth Sawmill
- Sol Pacific Timber
- Timol Timber
- Top Timber Company
- Value Added Timber Association (VATA) Enterprises
- Western Timber Traders

2.2.2 Domestic Markets for Timber

As has been noted above, the value of domestic timber sales is not well quantified, but it is known to represent a significant component of the sector. In volume terms, it is reasonable to expect that the volume of domestic timber sales would be approximately equivalent to export sales.

The main domestic use for timber is in construction. This ranges from building of simple 'local' housing to more sophisticated structures such as office buildings, churches and other facilities. Honiara (with a population of around 70,000 people) is the largest market for timber that has been processed in sawmills, although timber is also sold and transported to other centres, particularly Auki (in Malaita) and Gizo (in Western Province).

In addition to the use of timber in construction, there are various secondary uses of timber and processing residues. These include:

- *Timber off-cuts*: most sawmills sell off-cut timber at reduced prices (around SBD100–300 per small truck load), which is widely used in a variety of 'local' construction applications.

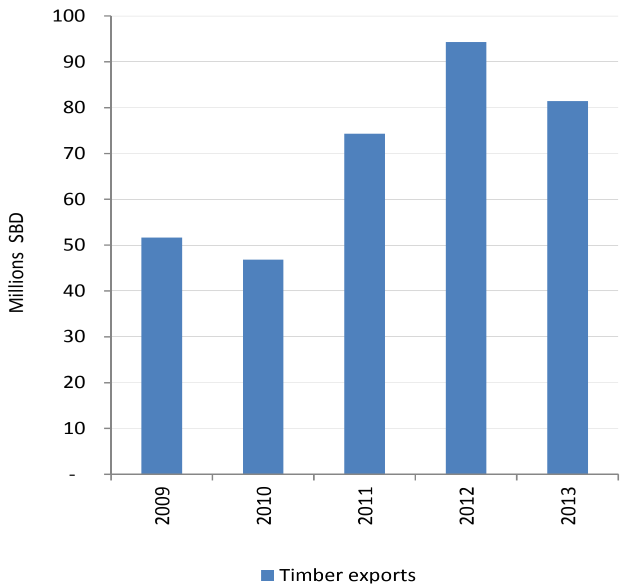
- *Firewood*: waste material is collected and cut into uniform size before being sold in bundles for use as firewood for cooking. This product is typically sold at markets around Honiara by small businesses that are not otherwise related to the sawmills.
- *Sawdust*: most sawmills allow the public to collect sawdust for free. This is also typically used as fuel for cooking as well as for rearing small livestock such as chickens and pigs.

These secondary uses of timber products do not typically generate much revenue for the industry; however, they are important resources for local people who would have limited capacity to pay more for higher quality timber or alternative products.

2.2.3 Export Markets for Timber

The trade in sawn timber exports during 2013 is estimated to be around SBD81.4 million. This represents a 58% increase over the past 5 years: during 2009, the value of the sawn timber trade was SBD51.6 million.

Figure 2-6 Value of Solomon Island sawn timber exports

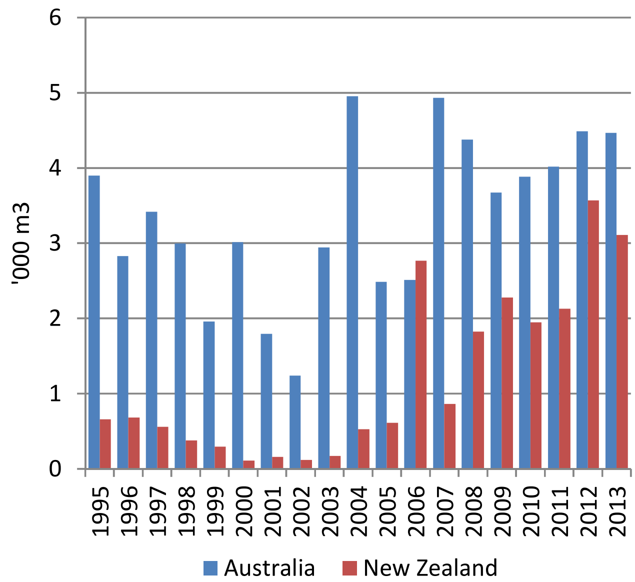


Source: CBSI

The majority of timber exported from Solomon Islands is shipped to Australia and New Zealand, with smaller volumes being sent to China and Taiwan. Over the past 10 years, the volume to these two countries has increased, particularly the volume of timber exported to New Zealand. Figure 2-7 shows that in 2013 Australia and New Zealand collectively accounted for around 7,500 m^3 of exported timber from Solomon Islands.

According to Solomon Islands Customs data, in 2013, New Zealand imported 92% Vitex and 7% Kwila, whereas Australia imported 63% Rosewood, 22% Vitex and 5% Kwila. These species preferences affect market value, as Rosewood tends to be a higher value species than Vitex and Kwila.

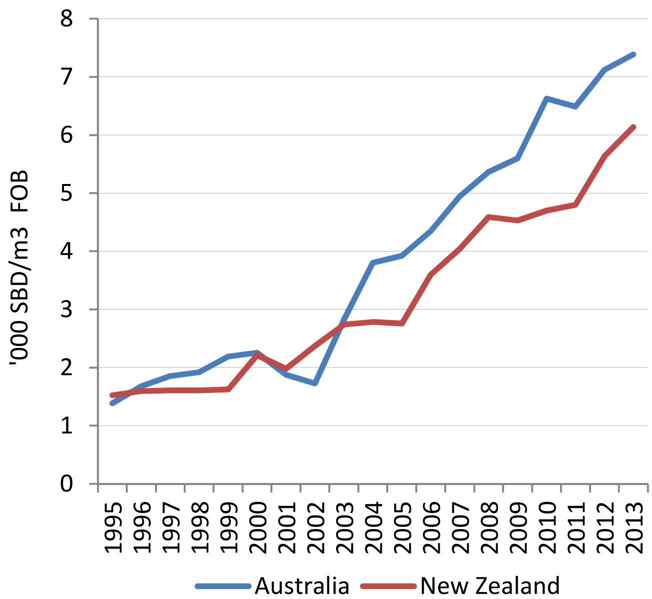
Figure 2-7 Volume of Solomon Island exports to Australia and New Zealand



Source: Global Trade Information Services, Inc. (GTIS)

The average unit cost of timber exported from Solomon Islands is higher for Australia than New Zealand. Much of the difference is likely due to the higher proportion of Rosewood imported into Australia compared to New Zealand, which imports a higher proportion of lower cost Vitex timber. In 2013, the average cost of Solomon Islands timber was around SBD7,300/m^3 Free on Board (FOB) for Australian importers, compared with SBD6,100/m^3 FOB for New Zealand. Figure 2-8 shows the trend in unit cost over time, which has been increasing at a high rate over the past 10 years.

Figure 2-8 Average unit cost of Solomon Island exports to Australia and New Zealand



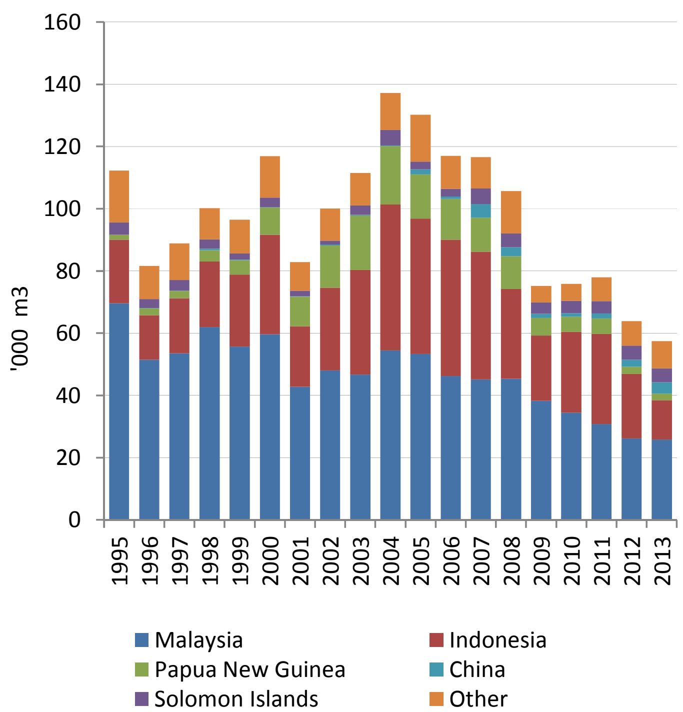
Source: GTIS

Australia

In 2013, Australia imported around 57,000 m^3 of hardwood timber (Figure 2-9), valued at SBD433 million. The majority of hardwood sawn timber imported into Australia is from Malaysia and Indonesia. In 2013, Malaysia accounted for 45% of import volume, Indonesia 22%, Papua New Guinea 4%, Solomon Islands 8% and China 6%. Although Malaysia is the largest source of imported hardwood timber, Indonesian imports on a proportional basis have been on an upward trend since 1995, despite the overall imported volume declining over this period. This may have been contributed to by increasing restrictions on the harvest of native forests in Malaysia. Imports of Solomon Islands sawn timber constituted 5% of total imports during 2009 to 2011, with import volumes increasing to 7% in 2012 and 8% in 2013.

In 2013, Australia is estimated to have imported around 4,500 m^3 of hardwood timber from Solomon Islands. Imports from Solomon Islands have been steadily increasing since 2002, when the lowest import volume (1,200 m^3) in more than 20 years was recorded.

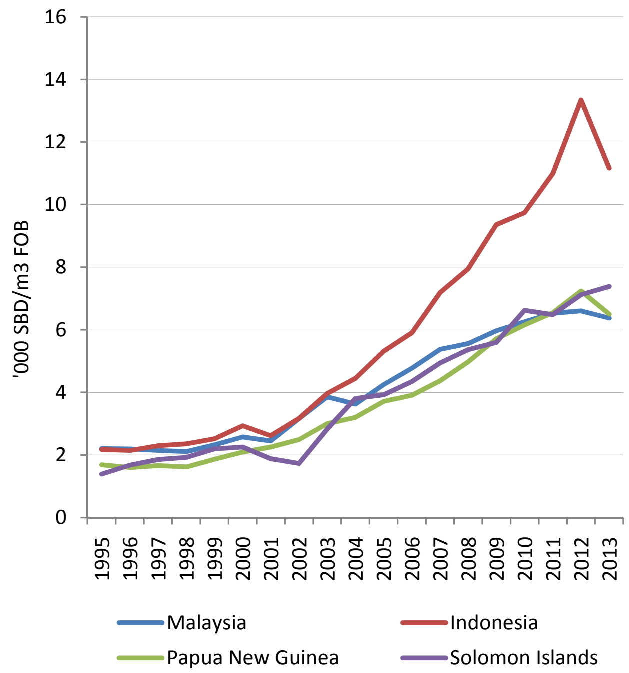
Figure 2-9 Volume of Australian imports of hardwood sawn timber



Source: GTIS

Of the major sources of Australian hardwood timber imports, Indonesian imports have the highest average unit value (see Figure 2-10). Since 2002, unit values of imported sawn timber have been trending upwards across all major source countries, including Solomon Islands. In particular, Indonesia has reported particularly large increases, with the average unit value almost doubling since 2003, currently at around SBD11,000/m^3 FOB. This compares to an average unit value of Solomon Islands timber of around SBD7,400/m^3 FOB. Most of the Indonesian timber is imported dried and dressed, compared to Solomon Islands timber, which is predominantly imported as green, rough sawn timber.

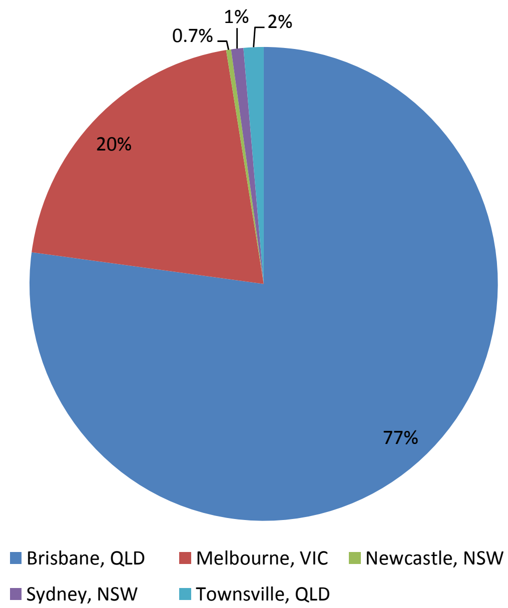
Figure 2-10 Unit cost of Australian imports of hardwood sawn timber



Source: GTIS

The majority of sawn timber from Solomon Islands is imported through the Port of Brisbane. In 2013, the Port handled 77% of Solomon Islands imports by volume (Figure 2-11). The remainder was predominantly shipped through the Port of Melbourne, which accounted for 20% of Solomon Islands imports by volume. The volume of imports through the Port of Melbourne has increased over time.

Figure 2-11 Volume of Australian imports of hardwood sawn timber by port in 2013



Source: GTIS

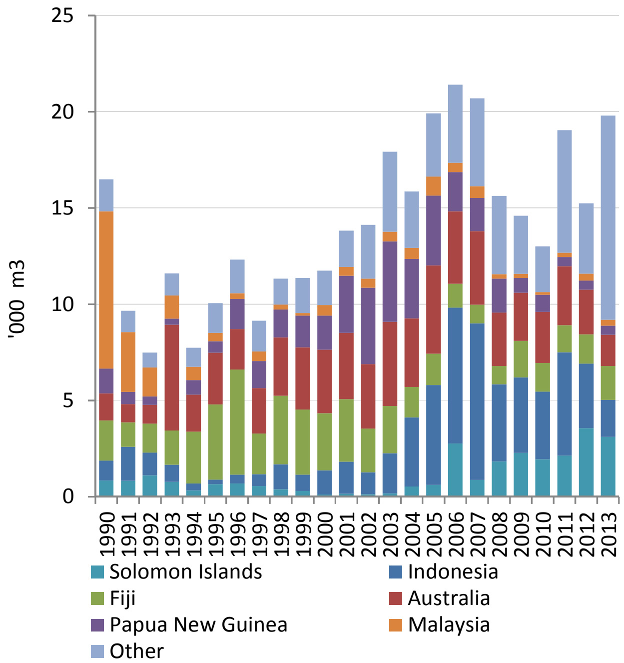
New Zealand

In 2013, New Zealand imported 19,800 m^3 of hardwood sawn timber (Figure 2-12), valued at around SBD144 million.

Compared to Australia, the volume of New Zealand hardwood sawn timber imports is spread over a wider range of source countries. In 2013, the largest source of imported hardwood sawn timber was estimated to be Solomon Islands, accounting for 16% of New Zealand's import volume or 3,100 m^3. Other major sources included Indonesia (10% by volume), Australia (8%) and Fiji (9%). Imports from Solomon Islands have been trending upwards since 2003. By contrast, imports from Papua New Guinea and Indonesia have been declining.

Although Solomon Islands timber accounts for the largest volume of hardwood timber imports, the largest timber source by value is Indonesia, which accounted for 25% of import value in 2013, reflecting the higher value of the finished timber products typically imported from this country. Other high value sources included Solomon Islands, which accounted for 14%, Australia 13% and Fiji 9%.

Figure 2-12 Volume of New Zealand imports of hardwood sawn timber

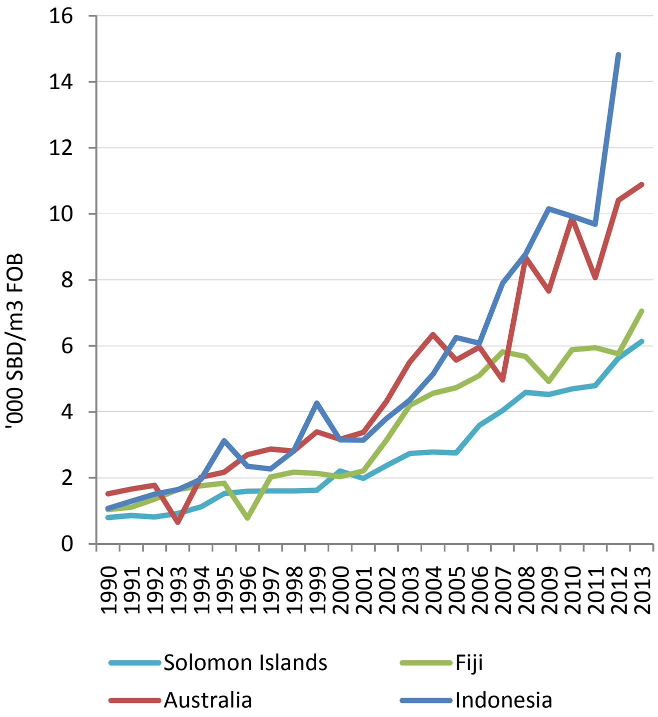


Source: GTIS

Similar to the situation in Australia, Indonesian timber has the highest value of sawn timber imports to New Zealand (Figure 2-13). All timber unit values have been tracking upwards over time, with the largest increases recorded by Indonesia. Unit prices of New Zealand imports appear to be more volatile than Australian imports. This may be due to New Zealand's relatively smaller volume of imports and the wider spread of timber sourcing.

In 2013, the unit cost of Solomon Islands timber was at its highest to date, averaging around SBD6,100/m^3 FOB. The unit cost of imported Solomon Islands timber has been increasing over time and in 2013 was more than double the unit cost in 2003. The greatest increase in unit cost has occurred over the period 2005 to 2008, during which the unit value increased by 67%. Since then, the unit value has increased by around a third.

Figure 2-13 Unit cost of New Zealand imports of hardwood sawn timber

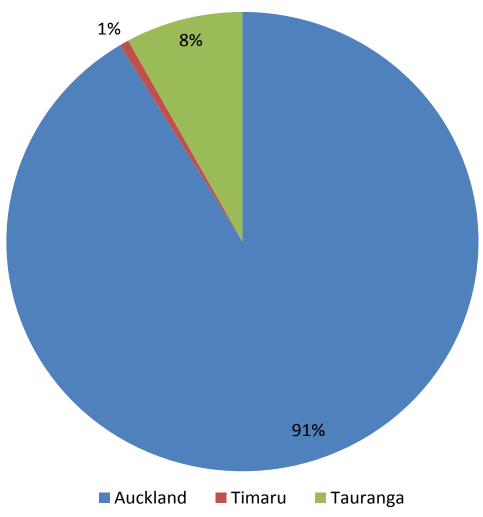


Source: GTIS

N.B. data not available for Indonesia in 2013

The majority of Solomon Islands timber imports to New Zealand arrive into the Port of Auckland (Figure 2-14). In 2013, the Port of Auckland accounted for 91% of imports, while Tauranga accounted for 8%.

Figure 2-14 New Zealand import volume by port in 2013



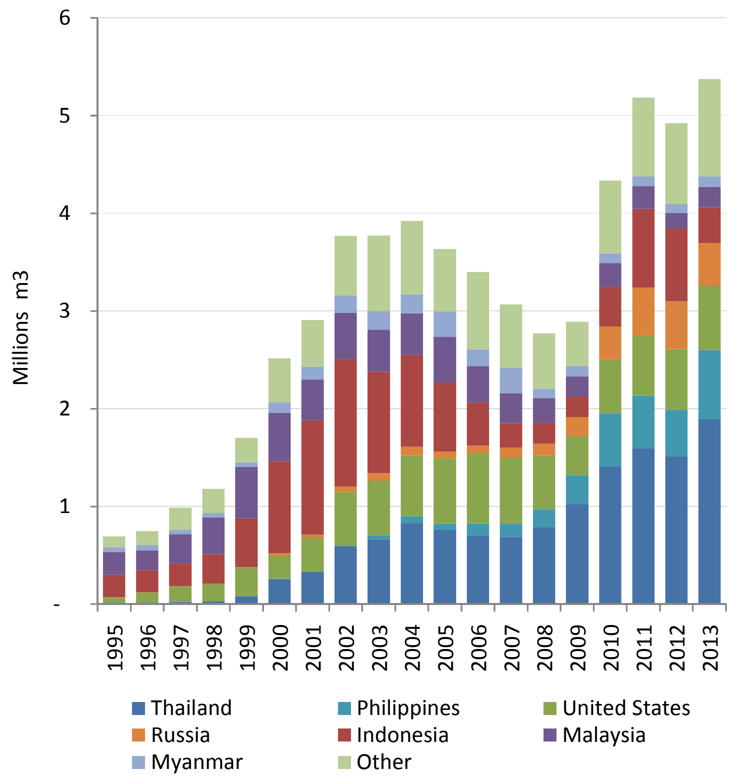
Source: GTIS

Other Markets

Other key importers of Solomon Islands hardwood timber include Taiwan and China. According to CBSI data, in 2013 these countries collectively accounted for around 8% of the Solomon Islands timber export volume.

China is an extremely large and fast-growing importer of timber products by international standards. Much of the wood volume entering China comes in as round wood; however, China also imports around 5 million m^3 per year of hardwood sawn timber alone (Figure 2-15). Over the past five years, China's hardwood timber imports have been predominantly sourced from Thailand, Philippines, Indonesia, Russia and the United States. In 2013, China reported importing around 1,600 m^3 of timber from Solomon Islands. The volume imported from the Solomon Islands has been included in the 'Other' category in Figure 2-15 below.

Figure 2-15 Volume of hardwood sawn timber imports to China



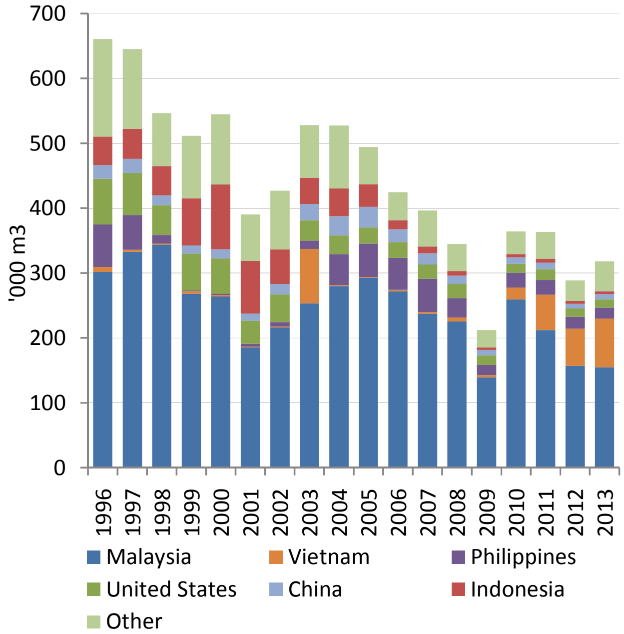
Source: GTIS

The unit cost of hardwood timber imported into China has been increasing gradually over the past 10 years. Despite low volumes, the cost of Solomon Islands timber appears to be significantly higher than timber imported from other Asia-Pacific countries and also the United States. In 2013, Solomon Islands timber was imported for an average cost of around SBD3,500/m^3 Cost Insurance and Freight (CIF) basis compared to most other imported product which were around SBD2,000–3,000/m^3 CIF. Philippines was significantly lower than this, with an average cost of around SBD1,000/m^3 CIF in 2013. Note that these imported unit prices are appreciably lower than those received by exports to Australia and New Zealand.

In 2013, Taiwan imported a total of 320,000 m^3 of hardwood timber, a large volume but only a fraction of that imported by China (Figure 2-16). The majority of Taiwan's imports were from

Malaysia (49%) and Vietnam (24%). Sawn timber imports have been on a downward trend over time, decreasing by 40 per cent over the past 10 years. Imports from Malaysia have reduced by around 40% over this time to become around 155,000 m^3 in 2013. The volume of imports from Indonesia has also reduced dramatically over this period. Conversely, imports from Vietnam have been on an upward trend since 2004 to reach 75,000 m^3 in 2013.

Figure 2-16 Volume of hardwood sawn timber imports to Taiwan



Source: GTIS

The unit cost of Solomon Islands sawn timber imports into Taiwan has been highly volatile over time, reflecting the low volume of timber imported into the country. In 2013, the timber imported was reported to have a unit cost of around SBD 6,500/m^3 CIF. This was significantly higher than the unit cost of Taiwan's major timber sources (Malaysia and Vietnam), from which imports averaged costs of around SBD2,500/m^3 CIF and SBD1,500/m^3 CIF respectively.

3 PERCEPTIONS OF SOLOMON ISLANDS EXPORTERS

The survey of Solomon Islands timber exporters was conducted during April 2014. This chapter summarises the outcomes of these consultations and the key perspectives and comments made by exporters.

There are around 10 main dedicated timber businesses in Honiara and Noro that engage in timber exporting and domestic sales to varying degrees. These businesses have been the focus of this consultation. However, as has been noted earlier, at any one time there are also several smaller operations that export timber (and sell domestically) on an ad hoc basis. There seems to be a high turnover of such businesses, depending on market opportunities and the objectives of those involved. In addition to dedicated timber businesses, logging companies that are focussed on the harvest and export of logs also occasionally export timber, sometimes in relatively high volumes.

3.1 Description of Products and Markets

3.1.1 Market Focus

The 'main' timber businesses differ in, among other things, the degree to which they are engaged in the export market. The proportion of timber sold to domestic and export markets by each of these businesses ranges from around 100% sold to local markets to 90% sold to export markets. The businesses consulted can be loosely categorised as outlined in Table 3-1. This market focus varies over time for each business but all those consulted commented that they did not expect this to vary significantly in the coming 3–5 years.

Table 3-1 Market focus of the main timber businesses in Solomon Islands

Market focus	Business
Predominantly export	• Top Timber • Pacific Export Alliance Group • Goodwood • VATA • Western Timber Traders / Pacific Timbers • Priceworth Sawmill
Mix of export and domestic	• Lagoon Eco Timber • Sol Pacific Timbers
Predominantly domestic market	• Timol Timber • Hatanga Hardwoods • John Wesley Timbers

3.1.2 Location of Export Markets

New Zealand and Australia are currently the main export markets. Exporters commented that the other largest markets are Philippines, Taiwan and Malaysia.

Vanuatu and New Caledonia have previously been a market for some businesses. Opportunities in these markets seem to have been based on individual businesses seeking timber from Solomon Islands. An example was given of someone that was based in Solomon Islands and buying timber to export to their own company in New Caledonia.

In the Australian and New Zealand markets, the bulk of the exported timber is sold to 3–4 main importers. Some Solomon Islands businesses currently only export to one customer. It was suggested that broadening the customer base may be beneficial to exporters.

3.1.3 Product Specification

Vitex is the most popular species for export. Asian markets predominantly prefer Kwila and Rosewood, for the rich colour. The exporters consider that the New Zealand market is focussed on Vitex, which is largely used for decking, whereas they consider that the Australian market takes most of the Rosewood.

Some businesses suggested that supply of alternative species to these established markets could be an opportunity to increase exports.

According to exporters, only minimal timber grading is currently being conducted. The extent to which grading is conducted varies between businesses. Some simply use 'export' or 'domestic' (i.e. good or bad), while others use a simple system (e.g. Grade A – free of noticeable defects, B – second grade, C – scrap and firewood).

Timber that is sold to the domestic market is typically that which does not meet the requirements of export customers.

3.1.4 Commercial Terms

Most business sell their product on an FOB basis and are paid in full on presentation of an emailed copy of the required export documents. Newer customers, with which business relationships are less established, reportedly often pay in part on receipt of documents and then pay the balance on receipt of the shipment.

3.2 Perceptions and Challenges Identified by Exporters

3.2.1 Initial Supply Chain

Table 3-2 outlines some recognised challenges in the supply chain of Solomon Islands before the primary product arrives with the local sawmilling industry. These challenges have been compiled based on discussions with Solomon Islands exporters.

Table 3-2 Key challenges in the supply chain of the Solomon Islands forest industry

1. Forest management	<u>Sustainability issues</u> Harvest rates are unsustainable at a national level.
	<u>Market requirements for certification</u> Limited capacity to obtain forest management certification or to document and/or demonstrate management practices.
2. Harvesting Can be done by logging company or landowners	<u>High cost of production</u> Particularly for small producers. Production can also be sporadic due to weather and other work or social commitments.
	<u>Inadequate licensing</u> Particularly of small producers. Much timber from these sources does not have a licence.

	Inefficient felling techniques Inappropriate felling practices can lead to excessive waste and damage to logs, which has an impact on timber quality.
3. Primary processing Initial processing at stump or log landing using portable mills or chainsaw	Manual handling of timber Manually carrying timber (typically done by landowners) leads to inherent limitations on scale and timber dimensions that can be cut and transported.
	Damage to timber during skidding, etc. Treatment during skidding and storage in log ponds leads to log damage (done by logging companies).
4. Shipping to aggregation points and sawmills	Cost of shipping Shipping costs are high, particularly if transporting smaller volumes (indicative freight cost of SBD1,000 per m^3).
	Inconsistency in shipping routes and vessels Access to shipping can be inconsistent due to (for example) weather, difficulty in communicating to vessels, etc.
5. Sale at Honiara Sale by landowners to sawmills	Confusion on timber pricing and grading Many small producers arrive at market with timber in small variable loads (e.g. on a 3 tonne truck) to sell direct to sawmills. Disagreements often arise over timber grading and pricing, size specifications, etc.

3.2.2 Sawmilling and Export Industry

Through the survey of exporters, a range of valuable feedback was collected on factors that were perceived to be limiting the success of the Solomon Islands timber industry. Exporters provided feedback both on factors within their own businesses and segment of the supply chain, and also on factors outside of the segment, generally further up the supply chain, pertaining to efficiency and the cost and availability of wood within the industry.

Table 3-3 provides a summary of key challenges identified within the sawmilling industry.

Table 3-3 Key challenges in the Solomon Islands sawmilling and export industry – feedback from exporters

Challenge identified	
1	Volume of supply Capacity to supply was identified as the main constraint to growth of the timber export industry. This is largely due to the inherently slow and sporadic production and transport of timber in Solomon Islands.
2	Consistency of supply Most exporters seem to have had customers raise the issue of consistent supply with them and all recognise it as a key business issue. Many noted that supply inconsistency occurred in their sourcing of timber as well as in supplying customers.
3	Business relationships
3a	*Constraints to developing further into export markets* Some exporters commented that speed of service had been raised as a concern by their customers in the past. Another limitation to exporting is the high costs (and additional processing time required) of preparing timber for export. Such issues have been noted by those businesses focussing on the domestic markets – exporting is 'just too difficult'.

3b *Constraints relating to cash flow*

Cash flow was raised as a limitation associated with exporting timber as well as with sourcing timber from producers. Some businesses suggested that a letter of credit from the buyer would be an improvement on current arrangements, to improve their revenue and cash flow situation.

4 Quality of timber

4a *Constraints to improving timber quality – inconsistency of log quality*

Exporters recognise that their customers have had concerns in the past relating to poor or inconsistent timber quality. This stems from the inconsistent quality of timber that is available to processors – most of what is sourced requires re-sizing for export and this is not always possible due to the condition of the timber on arrival at the mill.

4b *Constraints to improving timber quality – processing capacity*

The lack of or poor condition of processing machinery limits the capacity to size timber to specifications.

4c *Interest in a national grading standard*

All businesses responded positively about the potential for a national timber grading standard, with perceptions that this would be beneficial in both domestic and export markets.

The main benefit/s were seen as being more consistent and improved quality for buyers, and the increased potential to market timber according to its quality.

5 Loading of timber

Businesses didn't specifically comment on loading (or unloading) of timber, although there was a general recognition that customers have had issues with this at times. Most businesses have a forklift for moving timber within the yard; however, the bulk of container packing is done by hand, usually by stacking timber and securing with metal strapping while in the container.

6 Certification and timber sourcing practices

6a *Some legality verification provided but limited ability to verify sustainability*

Some customers have requested sustainability certification, but there is limited capacity to supply such product (particularly from the perspective of timber processors, who typically are not managing forest areas themselves).

Most/all buyers in Australia and New Zealand are requesting some form of legality verification. This requirement is typically primarily met through the provision of a Certificate of Origin from the Ministry of Forestry, but also through related approvals such as the permit to export and milling or felling licences.

4 PERCEPTIONS OF TIMBER IMPORTERS

The survey of Australian and New Zealand importers covered 17 of the major companies that import timber products (12 in Australia and 5 in New Zealand). In addition to these companies, eight other timber importers/traders were visited as part of the market research process (in these cases, the survey was not undertaken but product range and operations were reviewed).

Based on import quantities provided by the companies, it is estimated that approximately 80–90% of the market for Solomon Islands timber was captured in each of the countries by talking to the largest importers of Solomon Islands product.

Table 4-1 provides a breakdown of the main importing companies surveyed in Australia and the volume and type of timber they were importing at the time of the survey (May–June 2014).

Table 4-1 Estimated breakdown of import volumes by surveyed major Australian importers

Companies*	Estimated containers per month	Volume per year (m^3)	Rosewood	Vitex	Kwila	Other	Other products
Importer A	2	480	25%	50%	10%	15%	Imports large volume of other timber types
Importer B	5	1200	99%	-	-	-	Imports large volume of other timber types
Importer C	2	480	99%	-	-	-	Imports large volume of other timber types
Importer D	1	240	90%	-	-	-	Imports large volume of other timber types
Importer E	0.5	120	100%	-	-	-	Predominantly focussed on Solomon Islands timber
Importer F	0.25	60	50%	50%	-	-	Imports large volume of other timber types
Importer G	9	2200	55%	25%	20%	-	Predominantly focussed on Solomon Islands timber
Importer H	4.5	1080	95%	5%	-	-	Imports large volume of other timber types

Note: Data is based on feedback from importers. It has not been verified against associated import trade data.

* *Importers A, B, C etc. represent actual companies consulted. Business names have been removed.*

Table 4-2 provides a breakdown of the companies surveyed in New Zealand and the volume and type of timber they were importing at the time of the survey.

Table 4-2 Estimated breakdown of import volumes by surveyed New Zealand importers

Companies	Estimated containers per month	Volume per year (m^3)	Rosewood	Vitex	Kwila	Other	Other products
Importer A	8	1,920	-	100%	-	-	Imports large volume of other timber types
Importer B	5	1,200	-	90%	-	-	Imports large volume of other timber types
Importer C	8	1,920	20%	70%	10%	-	Predominantly focussed on Solomon Islands timber
Importer D	1	240	50%	50%	-	-	Imports large volume of other timber types
Importer E	2	480	20%	70%	-	10%	Imports large volume of other timber types

4.1 Description of Products and Markets

4.1.1 Markets

Australian importers of Solomon Islands product tend to be specialised wholesalers of hardwood products. They are generally not the largest volume timber wholesalers, which are often businesses that specialise in supplying Radiata Pine and Indonesian Merbau (which are traded in large volumes and require a different business approach). New Zealand differs somewhat, as the importers of Solomon Islands product seem to also stock many mainstream products such as Western Red Cedar and Merbau decking; however, they are generally import-focussed and do not trade Radiata Pine. Both countries have a long history of doing business in Solomon Islands, but particularly the New Zealand importers, most of which travel there quite regularly.

Species and Uses

In terms of the customs data, Australia is a larger market than New Zealand. By volume, Australia has a greater preference for Rosewood and a smaller demand for Vitex. This is reversed in New Zealand, where companies primarily import Vitex and only a small amount of Rosewood. Both countries import small volumes of Kwila.

In Australia, Rosewood is generally used for joinery (e.g. windows, doors, staircases and cabinetry). Australian importers, due to the importance they place on Rosewood, are equipped for drying and processing this product for joinery. They have space for racking and air drying timber and have gas or solar operated kilns for finishing off the timber to a moisture content of 12–15%. Generally, Rosewood is air-dried for 6 months (see Plate 4-1) before spending 2–4 weeks in the kiln at around 40–60°C. It is then sawn and dressed into joinery dimensions (see Plate 4-2).

Plate 4-1 Imported Rosewood racked and being air-dried, Queensland

Plate 4-2 Imported Rosewood, dried and dressed by importer and ready for delivery, Queensland

A portion of the Vitex imported into Australia appears to be on-sold to New Zealand, where there is a supply shortfall due to limited volumes being available from Solomon Islands. This has been confirmed with importers in both countries. In general, Australian importers have a strong preference for wide boards and long lengths to meet the varied needs of the joinery market.

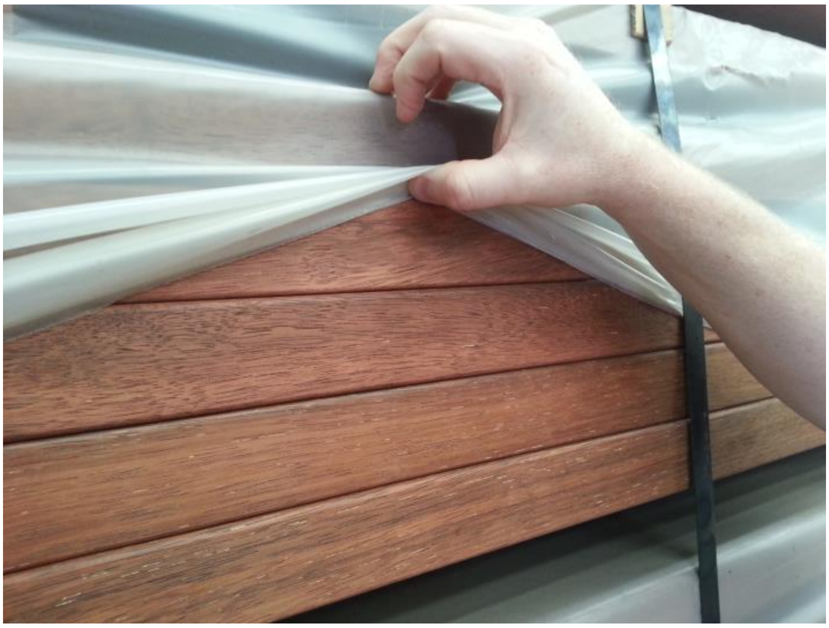
The New Zealand importers have similar set ups, although without kiln drying capability, which is generally seen as unnecessary for decking timber given that a moisture content of around 18–20% is acceptable for outdoor purposes in New Zealand's climate (see Plate 4-3).

Plate 4-3 Imported Vitex partly racked and being air-dried, Auckland

In New Zealand, Vitex is one of the more common decking timbers. It is also used sometimes for handrails and outdoor seating (e.g. bus shelters) and other niche applications.

Solomon Islands' Kwila is a small volume product that does not significantly compete with Indonesian Merbau. Indonesian Merbau products occupy a position in both Australia and New Zealand as a large volume decking and outdoor timber species that is favoured by many as an economical and attractive option for outdoor appearance needs (see Plate 4-4).

Plate 4-4 Imported Indonesian Merbau received dried and dressed and ready for on-sale, Queensland



Solomon Islands Kwila, commonly being exported as a raw flitch in small volumes (see Plate 4-5), isn't sold into the same market due to the cost competiveness of the Indonesian processing, which is brought in as a finished product.

Plate 4-5 Imported Kwila flitches (8x8 inches) awaiting re-processing, Queensland

However, according to importers, because Indonesia restricts the export of large dimension flitches, there is a niche for the Solomon Islands timber as larger dimension outdoor posts where green timber is acceptable, or potentially other uses.

4.1.2 Key Competitors

Major competitors with Rosewood in Australia are reported to be western red cedar (which is sourced from North America), Accoya (high durability treated clear Radiata Pine) and Victorian Ash (Eucalypt species from southern Australia).

Major products competing with Vitex in the New Zealand decking market are Indonesian and Malaysian Merbau, treated Radiata Pine and several South American hardwoods, including the species traded as Garapa, Massa and Tonka.

4.1.3 Product Specifications

Nearly all timber exported from Solomon Islands is green, rough sawn timber either in flitches or boards. Rosewood and Vitex are more commonly processed into board dimensions, whereas Kwila (and sometimes Vitex) is generally shipped as larger dimension flitches.

Generally, Rosewood is set by thickness and widths and lengths are random. Common thicknesses include 25, 38 and 50 mm; however, occasionally 65 and 75 mm thicknesses are sold by Solomon Islands exporters. Lengths vary between 1.8 and 4.0–4.5 m, in general averaging around 3 m. However, Australian importers have reported that, in recent years, Rosewood widths and lengths have reduced on average as the volume of good quality timber has become scarcer. Average length per container is reported to regularly fall below 3 m. Timber length is limited compared to the product of many other countries due to the need for Solomon Islands timber workers to carry flitches by hand to and from transportation.

Vitex is specified in more detail with a range of common board dimensions, some of which require ripping before they are dried and dressed for sale. The optimal dimension for the decking market is 6" x 1", as this dimension generally can be sold without re-sawing, after it has been dried and dressed.

Most green rough sawn timber is over-sawn and sent with around 3 mm of tolerance for planing and drying.

Flitches are sold in squared dimensions of 100x100 mm (4x4"), 150x150 mm (6x6") and 200x200 mm (8x8") (see Plate 4-6). 200x200 mm is the largest flitch dimension sold, as most portable sawmills cannot physically cut flitch dimensions bigger than this.

Plate 4-6 Imported Vitex flitches, racked and being air-dried, Queensland (note the variable dimensions and rough ends of the timber)

4.1.4 Pricing

Prices are set and standardised by cubic metre but orders are placed by width. Generally importers pay for the product FOB after the presentation of loading documentation by the exporter.

Prices for Rosewood to Australia are generally reported to be in the range of AUD1,200–1,400/m^3 FOB. Prices for Vitex to New Zealand are generally reported to be around NZD700–900/m^3 FOB. Kwila sells for around NZD600–700/m^3 FOB. According to importers, prices for Solomon Islands Rosewood have increased considerably over the past 3–4 years. Several importers reported that prices had risen by around 15–20% over this period. Although this does not as yet seem to have had an impact on the volume of timber that is imported, importers stated that the price trend was unwelcome and was forcing them to regularly discuss other timber options with their customers.

4.2 Perceptions and Challenges Identified by Importers

As part of the importer survey, businesses actively engaged in importing Solomon Islands timber were questioned on their perceptions of the process of timber trading with the Solomon Islands industry and on the challenges they experience maintaining supply into their businesses. Table 4-3 summarises the aggregated perspectives and views provided by the importers surveyed.

Table 4-3 Key challenges in the Solomon Islands sawmilling and export industry – feedback from importers

Challenge identified		Importance[1]	Frequency of issue[2]
1	Volume of supply		
1a	*Not enough supply of Rosewood or Vitex for market needs of Australia and New Zealand* Not enough supply of Rosewood or Vitex for Australian and New Zealand importers. One importer gave an example where they were close to being awarded a supply contract for a new building construction that would require over 500 m^3 of Solomon Islands timber. This scale project is very difficult to successfully supply due to the volume limitations of the Solomon Islands timber industry.	High	Common
1b	*Not enough supply of Akwa/Tuan for market development* Akwa produces high quality prime peeler logs used for veneer and plywood production, particularly in China. A small volume is currently being imported into both countries, for joinery in Australia and for flooring/decking in New Zealand. Mixed views on potential for markets in Australia and New Zealand.	Medium	Occasional
1c	*Low levels of trust between importers and potential new suppliers* Many exporters only import product from those suppliers that they have worked with for a long period and with which they have a well-established business relationship. Where importers are contacted by new suppliers, most of the time they will be very reluctant to engage in new business for timber supply and in instances that they do, it will be on the basis of payment on inspection at importer's workplace. This wariness to engage in new business has evolved due to many instances of importers reportedly having deposits or payments taken without receipt of the product that they agreed to purchase. The impact of a lack of trust with new suppliers is twofold: firstly, it limits the ability of importers to access new supply; and secondly, it creates an extremely high bar for exporters to meet if they would like to enter the export market, as they are required to fund the initial shipment/s of timber without any payment (creating the need for significant levels of working capital and the acceptance of payment risk on the part of the exporter).	Medium	Common
2	Consistency of supply		
2a	*Delays in orders* There are regular periods where timber orders are delayed or not delivered as planned. One example from an Australian company showed several extreme cases of orders still outstanding from 12 months to three years ago. With smaller suppliers, it can be very difficult to track company managers down and seek clarification on these situations.	High	Common

[1] Importance ranked as: High, Medium or Low
[2] Frequency of issue ranked as: Common, Sometimes or Occasional

Challenge identified		Importance[1]	Frequency of issue[2]
2b	*Breakdown of supplier equipment* There are regular occurrences of suppliers' equipment breaking down and maintenance of equipment is reported to be low. Maintenance issues include equipment breakdown, lack of replacement parts, etc. This is reported to be partly a combination of poor management (e.g. lack of spare parts, lack of recognition of the need for regular capital investment) but also due to a lack of skills, particularly those of a machinist / saw doctor that could service local businesses.	High	Common
2c	*Maintenance of operational capacity* There appears to be limited working capital held among the smaller Solomon Islands timber producers, and income from sales is spent very quickly. This inhibits steady business operations and ability to maintain timber purchases in advance of receiving orders from customers (contributing to the problem of supply inconsistency as described above).	Medium	Common
3	Business relationships		
3a	*Lost deposits* There have been instances of importers trying to develop new business relationships with exporters in Solomon Islands where deposits paid have sometimes been taken without timber being delivered. This has had an impact on trust between importers and exporters.	High	Sometimes
3b	*Orders remaining unfulfilled* Orders are frequently not delivered, without any explanation by the exporter. Although no payment is generally made by importers, it affects the ability for the importer to be able to plan their business around Solomon Islands timber. As a result, importers can treat Solomon Islands timber (especially Rosewood) as 'nice to have' products rather than a mainstay of their business, and there is reduced reliance on Solomon Islands timber products.	Medium	Common
3c	*Agreements not kept* There have been instances where exporters have agreed orders and prices with Solomon Islands importers and these orders have not been delivered, because the exporter has later agreed a better price with another customer and sold the previously agreed product. This has had an impact on trust between importers and exporters and reduced the attractiveness of doing business in Solomon Islands.	High	Sometimes
4	Quality of timber		
4a	*Squareness of timber* Some processors consistently produce timber that is not squared up, which creates problems for re-sawing in the destination country. 'Snakiness' or waves in the flat surface of a timber face is a common problem that is sometimes not recognised by Solomon Islands producers and results in unnecessary levels of rejection in Australia and New Zealand and/or significant levels of re-processing.	High	Common

Challenge identified		Importance[1]	Frequency of issue[2]
4b	*Compression damage* Logs that have been felled across other logs can have compression damage (or internal cracking) in the wood, which makes it brittle and not meet specifications.	Medium	Sometimes
4c	*End splitting* Some avoidable end splitting occurs during shipping and during the drying process.	Low	Occasional
4d	*Soiling of timber* Particularly at ends, which blunts the blades of band (and other) saws during re-processing by importers.	Low	Occasional
4e	*Consistency of grading* Occasional examples of a line of timber where the whole container has been out of specification due to Solomon Islands sawmill staff not noticing recurring issues with sawing quality, meaning the whole container has been rejected (outside of specifications) by the importer.	Low	Occasional
5	Loading of timber		
5a	*Manual loading of containers* Containers are sometimes completely loaded by hand, resulting in very high costs of unloading in destination countries.	High	Sometimes
5b	*Part manual loading of containers* Containers are partly loaded by hand, resulting in relatively high costs of unloading compared to other internationally imported products. One importer claimed that partly hand-packed containers from Solomon Islands took 4–5 hours to unload, compared with 20 minutes for an Indonesian container that could be unloaded completely by forklift. This creates safety and productivity concerns. The additional cost was estimated to be upwards of AUD1,000 per container in additional labour costs for destination workers to unload by hand.	Medium	Common
5c	*Inadequate strapping of timber packets* Containers are poorly strapped (using steel strapping), resulting in loose strapping and timber packs coming apart when dragged out of the container by forklifts.	Medium	Sometimes
5d	*Inadequate stacking of timber in packets* Timber is poorly stacked, resulting in bottom layers coming loose or bottom layers snapping, making it very difficult to pull these packs out by forklift.	Medium	Sometimes

	Challenge identified	Importance[1]	Frequency of issue[2]
6	Certification and timber sourcing practices		
6a	*Lack of a functional and credible certification scheme for Solomon Islands timbers* Lack of third party certified legality and sustainability certification at present. Importers have adapted to this by maintaining markets in utilising legal origin Solomon Islands timber products. New Zealand importers noted that the Village Eco-Timber Enterprises (VETE) model, which previously enabled a degree of third party assurance for some timber sources, is not currently functioning. Members of the New Zealand Imported Tropical Timber Group (NZITTG) in particular have raised the importance of having some level of third party verification for Solomon Islands timber, indicating that this (or demonstrated progress towards it) would ideally become available in the coming 2–4 years to be confident of ensuring ongoing sales to these customers. It is understood that this requirement is being driven in part by the end-customers of the timber importers, typically large hardware chains, which are preferentially sourcing certified material. The NZITTG members have a system of categorising timber sources according to the available level of certification or legality verification. In this context, third party verification of legal origin is generally considered a minimum benchmark. The NZITTG members have responded positively to the work of PHAMA in supporting the development of legality assurance guidelines, the associated development of a country-specific guideline by the Australian Government, and improved monitoring and verification of the timber industry. They have also indicated that they would consider supporting such work through funding collaboration with the Timber Utilisation Division of MOFR or other organisations as appropriate, as they have done previously with VETE.	High	Sometimes
6b	*VATA community sourced timber model requires improvement* Improvement is needed in the VATA community timber sourcing model to improve its effectiveness. Currently VATA is subsidising the freight of village timbers but has limited funds to operate effectively and is consequently limited in its ability to maintain a steady supply of timber to customers.	Low	Common

5 STRENGTHENING THE SOLOMON ISLANDS TIMBER SECTOR

Drawing on perspectives of exporters and importers and other stakeholders, this chapter outlines opportunities for the Solomon Islands industry to improve value or business effectiveness. For this purpose, key constraints and opportunities have been identified and grouped under broad themes. These themes, their main component activities and the constraints they seek to address are outlined below:

- **Timber quality improvements**
  Activities under this theme would focus on timber grading and timber processing facilities in order to address some of the identified challenges associated with timber quality and loading practices. This would incorporate the development of a uniform grading system, including awareness raising activities relating to timber loading and packing techniques, as well as assessing existing timber processing equipment/facilities and possible alternatives.
- **Enabling business environment**
  This theme would include activities to address some of the challenges associated with consistency of supply and business relationships through facilitation of improved access to finance and of programs to improve business skills for Solomon Islands industry.
- **Timber marketing support**
  This would include a timber market mission to key importer markets to better understand customer and end consumer requirements (along with competitor products), establishment of market information services, and marketing activities, including for 'new' species of Solomon Islands timber. These activities would help to address various specific constraints but would all broadly serve to increase awareness within the industry of international market requirements, as well as quality issues, timber pricing and alternative market opportunities.
- **Industry body development**
  Development of an industry body would help to ensure appropriate industry representation and could potentially improve coordination among timber businesses in meeting customer requests. This would help strengthen industry relationships with markets and government and provide a consistent framework for industry engagement. The approach considered is to explore models for further development of the existing Timber IWG.
- **Legality verification and forest certification support**
  Requirements for timber legality and forest management certification continue to influence international timber markets. The Solomon Islands timber industry has demonstrated its capacity to meet some of these incoming legality requirements; however, these international measures are likely to be subject to change over time and requirements may arise for additional work in this area, as has been indicated by some New Zealand importers. Activities are proposed to support timber traceability and the uptake of efficient and viable forest management certification.

Constraints and opportunities that relate to these themes are discussed in more detail below. Note that many of the opportunities presented below have been informed by discussions with exporters and importers, from which a range of constructive ideas were collected. A summary of these ideas is provided in Appendix E.

5.1 Timber Quality Improvements

Quality issues have for some time been raised by importers as a key challenge in sourcing timber from Solomon Islands and there is broad recognition of these issues among the Solomon Islands industry.

5.1.1 Timber Grading

The focus for improvement relates to development of a standardised accepted form of assessing timber quality. In addition, Solomon Islands timber producers would benefit from the development of market acceptable timber sizes and allowable tolerances.

Draft timber grading rules have previously been prepared as part of differing programs in the Solomon Islands forest sector, most recently as part of a collaboration between MOFR and the Secretariat of the Pacific Community. These draft rules would be a basis upon which to develop and confirm as being appropriate with domestic industry (producers and consumers) and importing organisations, before further development, as required, into a nationally recognised system for timber grading. A uniform system for timber grading could benefit producers and processers through:

- A common approach to the assessment of timber at the point of sale to sawmills, facilitating improved understanding of quality requirements among small producers;
- Consistent approach to timber grading among processors, encouraging greater consistency in the product delivered to export customers;
- Increased awareness and focus on timber quality issues among processors, promoting improved timber quality across the industry; and
- Reduced timber wastage and improved financial returns to those involved in timber production and sales.

Such outcomes could be expected to improve the efficiency of usage within the timber industry by reducing wastage in the production and use of timber, and to promote a greater focus and awareness of timber quality in general. This would enable business to maximise their production of quality timber and to market their product accordingly, facilitating increased product consistency and potentially improved returns.

Subsequent to development of grading rules, an awareness raising and training program would need to be designed and conducted. This would assist uptake of the grading rules in the differing parts of the Solomon Islands timber industry supply chain. Such a training program would seek to draw on relevant local organisations as part of its delivery. The Timber Utilisation Division of MOFR would be well placed to deliver or contribute to such training programs and consideration could also be given to collaboration with Solomon Islands National University (SINU) and Rural Training Centres, which provide vocational training throughout the country.

In terms of product presentation, timber quality is closely related to timber packing. Importers have raised concerns regarding inadequate packing of containers sourced from Solomon Islands, which can lead to timber shifting during transport and associated additional costs in unloading. When such issues occur, additional handling costs can be deducted from the purchase price paid to the Solomon Islands exporter. Solomon Islands timber businesses largely pack containers manually, strapping timber into bundles inside the container. Ensuring appropriate systems of packing and strapping of timber would help to address issues that have been experienced by importers, noting that any additional labour costs incurred in Solomon Islands will be lower than the cost of 'penalties' for additional handling in Australia or New Zealand. It is envisaged that the awareness raising and training program for timber grading would incorporate consideration of timber loading and appropriate strapping systems and technologies. For example, exporters could consider replacing the widely used metal strapping, which can come loose during transport, with alternative plastic wrapping systems.

5.1.2 Timber Processing Facilities

Further to the development and dissemination of a timber grading system, a potential intervention to promote improvements to timber quality is to consider timber processing facilities.

As was noted by several timber importers, the existing facilities and processing capacity among Solomon Islands exporters is variable in terms of both equipment/infrastructure and skills. Similarly, an example that was regularly raised during consultations with exporters was the limited availability and/or high cost of saw doctoring. Preliminary assessments made during this activity through visits to sawmills and discussions with exporters have confirmed the need to ensure access to skills to enable proper maintenance of equipment. Additionally, some importers consulted (who also process timber themselves) made suggestions as to alternative equipment that Solomon Islands businesses might consider. To further progress these considerations, it is proposed that a more detailed review of existing capacity be undertaken to define the current status of skills in machinery use and maintenance, and to design an associated training program. Such an assessment could consider:

- Skills requirements and existing capacity in saw doctoring and machinery operation;
- Assessment of machinery condition and maintenance requirements; and
- Consideration of suitable alternative equipment, where appropriate.

Potential engagement with timber importers would be considered as part of this activity. Given that most importers of Solomon Islands timber undertake further processing themselves, these importers have valuable technical and practical knowledge that could be drawn upon as part of a collaborative approach to quality improvement.

These proposed activities to support improvements in timber quality would serve to increase the efficient utilisation of the timber resource and improve the consistency of product delivered to market. Such improvements would help to ensure consistent and improved revenues for exporters.

Proposed activities
- Facilitate development and support implementation of a national system for timber grading in Solomon Islands, including training in timber packing and loading systems.
- Assess use and condition of timber processing machinery and existing timber handling practices. Define skill enhancement requirements and design complementary training program.

5.2 Enabling Business Environment

Realisation of any identified opportunities to improve quality and export volumes will be dependent on there being an enabling business environment for the businesses in the

Solomon Islands timber industry. For example, cash flow limitations are reportedly a consistent limitation to further expansion and investing in processing capacity in the industry.

5.2.1 Access to Finance

There is scope for donor programs to consider business support facilities that would enable businesses to better meet market requirements through improved supply consistency and/or quality. Various models of support might be considered, including: business grants, supplementary equity and/or partnerships for machinery purchases or improvements; and measures to facilitate additional supply to processors in Honiara or Noro.

The Rural Development Program Phase 2[3], which is currently in design, is likely to include a grant development program and consideration of the provision of supplementary equity facilities for selected primary industries in Solomon Islands. Consideration could be given to the eligibility of the timber sector to access such support.

Minimum requirements to be met by recipients of any support would need to be defined. Consideration could be given to demonstration by recipient businesses of the legality of the timber sourced and of confirmation that timber has been sourced from a village-based production operation/s, as a minimum requirement for funding eligibility.

5.2.2 Improvements in Business Skills

Another enabling factor for industry development is capacity in business planning and management, and it was apparent from consultations that scope exists for improvements in this area. Activities that could be considered include business mentoring and assistance with business planning functions. Donor assistance could design and facilitate appropriate training programs for representatives of the timber industries and, presumably, other similar export-oriented industries in Solomon Islands.

Improving the access of the Solomon Islands timber industry to this kind of enabling business support would be a key step towards improving both supply consistency and quality, which at present are fundamental limitations to further development of the timber export industry.

Proposed activities

- Explore provision of possible business support facilities that could work with the timber sector to develop improved infrastructure and processing capabilities through facilitating improved access to finance.
- Develop and facilitate programs to improve skills within the timber industry in business planning and management.

5.3 Timber Marketing Support

Complementing the above two initiatives to improve timber quality and ensure an enabling business environment would be an initiative focussing on timber marketing support. This

[3] The Rural Development Program (RDP) is a major donor initiative for the Solomon Islands primary industries. It is funded by the World Bank, Australian Government, European Union and the International Fund for Agricultural Development (IFAD). Phase 2 of RDP is scheduled to begin during 2015 and will have a focus on engagement with the private sector, particularly in the key primary industries of cocoa and coconut. Given timber's similar rural production base and common issues of scale and aggregation of supply, as well as transport and quality issues, there may be scope for the timber industry to access similar support to that available to other primary industries.

would encompass a suite of possible activities that would serve to increase awareness within the industry of international market requirements, as well as quality issues, timber pricing and alternative market opportunities.

5.3.1 Market Education Information Mission

It is apparent from this current market study work that many timber importers in Australia and New Zealand regularly visit Solomon Islands; conversely, however, Solomon Islands exporters rarely visit their markets in Australia and New Zealand (or elsewhere). This has resulted in exporters having a limited understanding of their market requirements as well as the changes and potential opportunities that can arise in those markets.

Building on this recent engagement with importers, now is an opportune time to consider a market education mission for Solomon Islands sawmillers and exporters to Australia and New Zealand. Such a mission would 'cross-over' most of the proposed initiatives discussed here, and could cover several areas that are of importance to the Solomon Islands industry, including:

- Improved awareness of importer quality requirements and understanding of product end-use, contrasting the Solomon Islands supply with competitor products;
- Further building understanding of and relationships with importing companies;
- Scope for short training or demonstrations of timber processing and presentation methods;
- Opportunity to promote Solomon Islands timber on the basis of legality assurance, focussing on the Country-Specific Guidelines co-endorsed between Australia and Solomon Islands (under activity SOLS10 Stage 3); and
- Opportunity to further explore alternate species and markets with existing and potential customers.

It is envisaged that around 10–12 Solomon Islands exporters, government representatives and facilitator/s might participate in the mission and that Brisbane and Auckland, the largest markets, would be the most useful destinations.

An important collaborator on this activity would be Pacific Islands Trade and Invest (PT&I), a regional organisation whose remit covers business promotion and export development for the Pacific Islands countries. PT&I could potentially contribute to facilitation of the mission and with follow-up opportunities as appropriate.

5.3.2 Establish Market Information Services

Improving awareness of export markets would be complemented by improved understanding of market prices and timber market requirements throughout the Solomon Islands supply chain. The need for this has been confirmed by smaller producers in particular, who have limited capacity to access market information on which they might base their business planning and production decisions. Another effect of poor market information is in the relationships between producers and processors – with limited awareness of costs and international market prices, many producers are reportedly dissatisfied with the prices they receive.

Finally, improved market information will inform government policy development and advice. It will also inform timber producers about changes in markets, enabling them to respond to market conditions.

A process of provision of timber pricing and information services needs to be scoped and confirmed with the stakeholders and potential end users of the data. The key steps in such a process would be to:

- Consider and confirm the data to be collected – with consideration of timber product types, species, end markets to be assessed, confirmation of pricing point etc.;
- Outline potential market description services, such as describing export market constructs, major firms within each market, drivers of these export markets, and assessment of competitor product markets;
- Confirm the target audience and users of the information – including producers, processors and government agencies; and
- Confirm approaches to delivering the market information – with the possibility of regular announcements on radio or in newspapers (as for other primary products), periodic publication of market data, etc.

Delivery of the information could be coordinated through an appropriate central agency that would be responsible for tracking and collation of information and its communication. One potential organisation is the Timber Utilisation Division, with possible consideration to collaboration with SINU as appropriate. Another option could be the involvement of the IWG or a centralised marketing agency. Whatever the appropriate agency, PHAMA will need to play a role in the initial design, and support for establishment of the necessary systems and processes.

5.3.3 Market Promotion Activities

5.3.3.1 Capacity to Provide Assurance of Timber Legality

Solomon Islands is the first and currently only country to have co-endorsed a Country-Specific Guideline for timber legality with the Australian Government. This is a significant outcome for the timber industry and a source of differentiation from its competitor markets such as Papua New Guinea, Indonesia and Malaysia.

The expected date for full implementation of the Australian requirements for legal timber imports is November 2014. There is scope around this for the Solomon Islands industry to promote itself on the basis of being able to offer recognised assurance of timber legality to Australian importers, as well as those in other markets. A market promotion program for Solomon Islands timber could be developed to capitalise on its position with respect to timber legality. This would serve to strengthen existing customer relationships and increase awareness of the Solomon Islands timber industry among potential new customers.

Ideally, this program would coincide with the market education mission. As with the market education mission, collaboration with PT&I would be explored, with one possible arrangement being for PHAMA to facilitate the development of promotional materials that PT&I might distribute and promote to potential markets.

5.3.3.2 *Supply of Alternative Species*

The Solomon Islands timber export industry is currently focussed on a few key markets and species. This represents a risk to the trade in the event that supply of these species becomes greatly constrained or less available, or the markets' demand varies markedly. Conversely, supply of a broader range of species would help to reduce pressure on the current main species and encourage a more diverse and sustainable industry,

This study found that the capacity to supply the preferred species is currently a major limitation to expansion of trade into the existing main markets, and recommendations have been made that would help to address this constraint. Increasing the sale of alternative species has the potential to increase export volumes and could also alleviate some of the demand pressure that is currently being experienced for the main species (Rosewood and Vitex). Solomon Islands has many high value hardwoods that could potentially be supplied into export markets. The extent to which this has occurred to date has been limited by export market preferences and knowledge of the species available.

This work explored importer interest in alternative species. Key feedback during these consultations was that exporters were focussed on the 'known' species for which there are recognised uses and well established markets. Importers were evidently open to sourcing different species but would require a level of understanding of their qualities and uses, resource availability, and the potential markets into which they would sell. An example of this perspective was in relation to Akwa (*Pometia* sp), where some importers commented that they could potentially source this species but would first need to be confident of the capacity of the Solomon Islands industry to supply sufficient volumes to warrant their investment of effort in marketing it as a 'new' product.

Building on this engagement and to help broaden the species base of the timber industry, a program of awareness raising with importers could be designed to encourage testing and uptake of the lesser-known Solomon Islands timber species that might be supplied, particularly given the apparent supply constraints for Rosewood and Vitex. A ready resource that could be utilised in this regard is the booklet *Solomon Islands Timber* that was published in 2005 as part of the Solomon Islands Forestry Management Project. Market preferences and capacity or interest to trial new species will be a key determinant of the uptake of any new species. While these perceptions are hard to predict, there is a high level of 'turnover' of species over time and product substitution as availability, cost and other factors influence the appeal of a given species for a given use. In this context, opportunities for new species can be influenced by a range of international market factors and therefore there is value in periodic engagement with markets to explore potential opportunities or changing demands that may arise.

Developing markets for plantation teak

A specific discussion point during importer consultations was the potential for supply of plantation teak from Solomon Islands. There are hundreds of small, community owned plantations throughout the country, with an estimated total area of around 4–5,000 hectares, and teak is the most widely planted species. These plantations were largely established during the early 2000s and are currently ready for thinning (from which small logs are produced), with final harvest of this resource expected to occur in the coming 5–10 years. As such, the plantation teak resource represents a significant potential source of expansion for the industry as a whole and particularly for the landowners that own the resource.

Discussion of this resource was included in consultations in light of recent and ongoing work of the Australian Centre for International Agricultural Research (ACIAR) and its PARDI program, which has involved working with landowners to improve the management of this resource and to facilitate market linkages to enable its profitable harvest and sale. (An overview of PARDI and other ACIAR programs was provided as part of the PHAMA SOLS10 Stage 1 activity (Technical Report 42).)

Importers consulted in Australia and New Zealand noted that the main markets for processing and manufacturing of teak are in south-east Asia and that common end products of this species are outdoor furniture, joinery and engineered flowing components such as parquetry. The low cost and relatively skilled manufacturing facilities in various south-east Asian countries are reflective across a wide range of timber products.

The existing Australian and New Zealand importers did not consider themselves to be equipped to compete with established Asian markets and processing industries that focus on this species. Such perspectives within Australian and New Zealand markets indicate that the main potential for teak is to link the Solomon Islands resource into supply chains that work through the Asian manufacturing and sale enterprises. Given the fragmented growing arrangements of teak plantations in the Solomon Islands, a real challenge exists in the development of an efficient and equitable log procurement and market access arrangement. PHAMA is led to understand that specific investigation of these markets and related supply chains has been undertaken through the PARDI program.

5.3.3.3 *Value Adding Opportunities*

In conjunction with the marketing activities discussed above, there are also specific opportunities for further value-adding that could be explored by the industry. The feasibility of these opportunities has not been tested in detail but they are presented here for consideration.

Deriving value from currently non-valued products

Exporters have raised the issue of utilisation of short lengths of timber (usually below 1.5 m). This material is typically not being sold to exports and much of this supply is going to waste. A related observation during consultations was that short and narrow boards of Rosewood are being included in shipments to Australia despite importers having little demand for such dimensions and difficulty selling such material. Markets for such material are more likely to be found in Asian markets with larger processing industries and capacity to utilise small dimension timber.

Indicative applications for such material could include sale to Malaysian or Indonesian markets for processing into products such as:

- Engineered flooring (usually a thin timber veneer on a plywood backing), or potentially sale of narrow boards (that are not in demand in Australia) for flooring applications.
- Engineered glue-laminated lumber (joined timber lengths).

An additional use of waste or un-saleable materials could be the production of bioenergy. Many sawmills worldwide generate electricity through burning residues to power their operations or supply the grid system. Examples of bioenergy use to power processing facilities exist in Solomon Islands in the coconut processing industry and there are examples in sawmills elsewhere of relatively simple systems that could be utilised.

Further processing to add value to current products

The existing supply of timber products to the Australian and New Zealand markets is effectively green timber (that is, timber that has only marginally dried since being processed). Once in these export destinations, the timber is further dried and then commonly planed to produce a smoothed timber product within a narrow specification for dimensions.

The importers bear these additional costs and the time involved as the timber undergoes further drying. While kiln drying in Solomon Islands is not particularly practical at present, given a range of issues including quality control and cost, exporters could improve the quality of their product through air drying the timber prior to export. Air drying requires access to land and recognises the cost of establishing and maintaining a stock of drying timber products.

Exploring alternative mainstream markets

As has been described, Solomon Islands timber exports are sold mainly into Australia, New Zealand and Asian markets. In addition to these, lower volumes have also been supplied to nearby markets in Vanuatu and New Caledonia. During consultations, Solomon Islands timber exporters commented that these markets have been characterised by individual businesses seeking timber from Solomon Islands on an occasional or temporary basis. There appears to be scope to develop greater linkages with these nearby markets, including Fiji, which might potentially purchase timber on an ongoing basis. These markets are known to import timber from outside the region, which could potentially be supplanted by timber from Solomon Islands.

Specific products that might be considered for supply to other Pacific Island Countries could include the supply of small volumes of dried and dressed high quality timbers to commercial building or high-end residential developments in Fiji, Vanuatu and New Caledonia.

While these measures have been articulated separately, they are interrelated and it is recognised that there may be scope to design part or all of these activities concurrently. This could be particularly relevant to the market mission and these ‘market promotion activities’, depending on the timing of their implementation and the outcomes of any prior activities. PHAMA could facilitate assessment of these value-adding opportunities through detailed feasibility studies incorporating assessment of markets, available technologies and/or cost benefit analyses.

Engagement with markets will be an important means of assessing the merits of these potential opportunities and this would be facilitated in part by ongoing engagement with importing businesses through implementation of any of the proposed initiatives that have been described.

Proposed activities

- Facilitate a market education mission of Solomon Islands exporters to key markets in Australia and New Zealand.
- Develop timber market information services to Solomon Islands producers and processors.
- Support market promotion activities to:
  - Capitalise on recognition of the Solomon Islands timber legality system under Australian legislation
  - Explore potential for and encourage export of alternative timber species
  - Further investigate and explore development of markets for new products and value adding.

5.4 Industry Body Development

Development of an IWG for the Solomon Islands timber sector was proposed as part of Stage 1 of the SOLS10 activity under PHAMA, with the IWG then established during May 2013 as part of Stage 2 of SOLS10.

Since its formation, the IWG has met on an approximately monthly basis and has been integral to development of implementation of the activities undertaken by PHAMA with the timber industry. The group has been a valuable forum for consultation and discussion of issues affecting the industry and, importantly, has been a successful example of collaboration between government and private industry.

PHAMA has supported the IWG through provision of secretariat support and coordination of meetings. With PHAMA now in Phase 2 of its operation, it is timely to consider the scope for continuation of this group beyond the term of PHAMA (which is expected to conclude in mid-2017). As was noted previously in PHAMA Technical Report 42:

> *In the longer term, it is envisaged that the working group or forum could develop into some form of industry body. The presence of an industry body with a focus on the sawn timber sector in Solomon Islands could provide benefits in the form of ongoing coordination, communication and education relating to market access issues. Such developments would be dependent on the interest and motivation of industry representatives but, if supported, would provide a framework to facilitate the ongoing implementation of any donor-initiated activities in this area. PHAMA would expect that, in the long term, any industry body or equivalent group would need to be self-funding (i.e. operate without Aid funding).*

It is recommended that PHAMA explore models to ensure the continuation of the IWG and to encourage consideration of its mandate and scope beyond that covered as part of PHAMA. It is understood that discussions have been initiated with the Solomon Islands Chamber of Commerce and Industry (SICCI) on the potential for SICCI to provide a framework for the continued function of the IWG.

It is relevant to note that the sawn timber industry has, of its own accord, previously initiated discussions on the establishment of a sawn timber industry group that would act as a broader industry body. These discussions occurred during the latter part of 2013; however, at the time of writing it is not clear whether any further activity is planned by industry to develop this group.

While this particular initiative appears to have stagnated, it is suggestive of broad industry interest in ensuring better representation.

Proposed Activities
• Investigate options and appropriate structures to facilitate further development of timber IWG.

5.5 Legality Verification and Forest Certification Support

Requirements for timber legality and forest management certification continue to influence international timber markets. This was reflected during this work by timber importers identifying the difficulty in sourcing third-party verified legal or certified sustainable timber as a constraint to industry development.

The Solomon Islands timber industry has demonstrated its capacity to meet incoming legality requirements, particularly for the Australian market; however, these measures will be subject to change over time and requirements may arise for PHAMA to support additional work in this area, either to strengthen timber legality verification through full traceability or to support the uptake of forest management certification. It is proposed that PHAMA consider the potential to support these activities on an as-needs basis.

5.5.1 Timber Traceability

PHAMA previously identified the potential need for development of a timber traceability system as part of Stage 2 of the SOLS10 Activity (see PHAMA Technical Report 43). This was considered in the context of such systems becoming necessary in order to meet international market requirements for timber legality. At the time of writing, it does not appear that these legality requirements, specifically those for the Australian market, will include a direct requirement for full traceability of timber along its supply chain. However, these measures are yet to be fully implemented and will be subject to review, and it is possible that this level of assurance will become necessary. It is recommended that scope for PHAMA to support timber traceability be retained as a possible future activity, to be considered subject to a need arising and in consultation with the IWG.

The previous work of PHAMA and the IWG has included preliminary scoping of systems that could support timber traceability, including identification of approaches that could be used by sawmills to trace timber from processing to loading for export. Traceability of the full supply chain would require such systems to be extended to incorporate timber licensing and production and transport throughout the country. Work of this nature would strengthen existing frameworks to demonstrate timber legality and would provide a strong footing for businesses undergoing third party assessments for the verification of legal origin.

5.5.2 Forest Management Certification

Some timber importers in Australian and New Zealand have raised the current inability to source sustainability certified material from Solomon Islands as a constraint to further industry development.

A review of the status and capacity for attaining forest management certification in Solomon Islands was conducted by PHAMA during Stage 1 of the SOLS10 Activity (refer to PHAMA Technical Report 42). While small amounts of Forest Stewardship Council certified timber are produced by some landholder groups in Solomon Islands, it is understood that none has yet been exported. This low uptake of certification (and therefore production volumes) is mainly due to the difficulties and costs for small producers to obtain and maintain certification.

Additionally, while some business in import markets preferentially source certified material, there does not currently appear to be a significant price advantage for certified timber relative to non-certified timber.

Reflective of the status of uptake of forest management certification is that timber processing and export businesses in Honiara (VATA Enterprises, Timol Timber and Lagoon Eco Timber) obtained Forest Stewardship Council Chain of Custody certification during 2012 but were not able to source any supply of certified material from the few certified producers. These businesses subsequently allowed their certification to lapse after one year to avoid the ongoing audit costs required to maintain their certification.

Regardless of these limitations, it is possible that certification could become a market differentiator, and that Solomon Islands may be able to exploit this potential. This could arise through government or industry procurement policies or simply through sufficient numbers of importing businesses in key markets choosing to preference certified material. In the immediate term, it appears that such changes are most likely to come from New Zealand importers, particularly those who are members of the NZITTG. These businesses have indicated their desire to source certified material from Solomon Islands or, in the absence of this, material that has been third party verified as being of legal origin.

There remains scope for PHAMA involvement to be considered at an appropriate time and in consultation with the IWG. The most appropriate type of intervention for PHAMA or other programs is likely to involve improving the local capacity for provision of 'certification support', which might include:

- Supporting specific business to prepare for certification, through gap assessments or financial support (for example, for auditing costs);
- Scoping and developing frameworks that could facilitate greater uptake of certification by small producers; and
- Facilitating training programs in sustainable forest management and certification for small producers, in conjunction with MOFR's existing programs in this area.

The key challenge for any forest certification system in Solomon Islands is identifying a process that is cost effective, efficient and supports viable long-term industry participants. Many of the approaches to date are highly inefficient, costly and being completed without a process that identifies a long-term return for the investment in forest certification system development and implementation.

Proposed activities

- Scope and develop systems to enable full traceability of timber along supply chains.
- Provide efficient and viable certification support services to facilitate greater uptake of forest management certification by small producers.

5.6 Collaboration with Importers

Consultations with importers have been a central component of this market study and the enthusiasm and level of engagement of importers with this work has been notable. Many have expressed interest in supporting the development of the Solomon Islands industry and offered to assist where possible. Such engagement represents an opportunity to further relationships with key markets and, for many of the proposed activities, should be an important component of their implementation, in particular where:

- A clear and up-to-date understanding of Australian and New Zealand markets is required;
- Specialised knowledge on timber processing and packaging is needed which is either not available or not suitable in Solomon Islands.

On the second point, several importers expressed their enthusiasm to assist Solomon Islands timber producers with better understanding of Australian and New Zealand markets, timber grading expectations and systems around machinery maintenance. This might take the form of interested importers contributing to training activities either in Australia/New Zealand or in Solomon Islands. PHAMA is well placed to facilitate such engagement.

An example of where such collaboration could be considered is in maintaining bandsaws and other sawmill equipment. In particular, some New Zealand importers are using similar processing equipment to Solomon Islands producers and there appears to be potential for information sharing and mutual benefits – importers receiving improved supply consistency by avoiding equipment breakages and exporters reducing operating costs over time.

6 INITIATIVES TO STRENGTHEN THE SOLOMON ISLANDS TIMBER SECTOR

In light of the outcomes of this market study and an associated industry workshop held during June 2014 in Honiara, the sawn timber IWG has articulated four priority initiatives and associated activities to help address these issues and strengthen the timber export industry. These include improvements in timber grading and market information, and providing support for businesses to improve quality and supply.

Table 6-1 outlines these proposed initiatives and identifies the type of associated specific activities that might be considered for their implementation. An indication of the timing and duration of each activity is given to guide their implementation over the coming 1–3 years.

While these initiatives can be considered as discrete sets of tasks, they are interrelated and to a large extent are all mutually reinforcing. For example, many of the activities as part of the timber marketing support initiative are closely linked in both content and timing to those under the timber quality improvements initiative, both of which would be complemented by the initiative to support an enabling business environment.

In addition to their presentation in Table 6-1, these initiatives are also included in an industry strategy for Solomon Islands sawn timber which is intended as an easy reference to guide discussion and elaboration of further work to support Solomon Islands sawn timber exports. This strategy is presented in Appendix F.

Table 6-1 Priority initiatives to support development of the Solomon Islands timber sector

Initiatives	Key activities	Component tasks	Indicative technical inputs[1]	Estimated cost (AUD)[2]	Priority[3]	Timing
Timber quality improvement	Timber grading rules	• Facilitate development and support implementation of a national system for timber grading in Solomon Islands (utilising existing draft grading rules). – Engage with domestic industry (producers and sawmillers). – Engage with representatives of importing industry. • Design and conduct awareness raising program relating to grading rules, including training in timber packing and loading systems.	Total ~75 days comprising: • ~45 days for system development and engagement with industry • ~30 days for design and implementation support for awareness raising activities	~$75,000	2	Start Sept 2014 Duration 18 months End Mar 2016
	Timber processing facilities	• Assess use and condition of timber processing machinery and existing timber handling practices, including requirements for saw doctoring and other machinery maintenance needs. • Define skill enhancement requirements and design complementary training program. • Explore opportunities for collaboration with importers as part of implementation.	Total ~35 days comprising: • ~15 days to assess capacity and requirements • ~20 days for program design	~$35,000	3	Start Nov 2014 Duration 6 months End May 2015
Enabling business environment	Access to finance	• Explore provision of possible business support facilities that could work with the timber sector to develop improved infrastructure and processing capabilities through facilitating improved access to finance. – Outline potential business support requirements and design program of business support activities. – Coordinate maintenance, review and reporting of program activities.	Total ~45 days comprising: • ~15 days for design of support program • ~30 days to support and review program functioning	~$50,000	7	Start Feb 2015 Duration 12 months End Feb 2016

Initiatives	Key activities	Component tasks	Indicative technical inputs[1]	Estimated cost (AUD)[2]	Priority[3]	Timing
	Improvements in business skills	• Develop and facilitate training or mentoring programs to improve skills within the timber industry in business planning and management.	Total ~25 days	~$25,000	6	Start Mar 2015 Duration 6 months End Sept 2015
Timber marketing support	Market information mission	• Facilitate a market education mission of Solomon Islands exporters to key markets in Australia and New Zealand to better understanding requirements of existing markets.	Total ~30 days	~$85,000	1	Start Sept 2014 Duration 3 months
	Establish market information services	• Develop provision of timber market information services to Solomon Islands producers, processors and other stakeholders. • Design a process to provide timber markets pricing information services within Solomon Islands. – Confirm data to be collected. – Confirm target audience and users of the information. – Confirm approaches to delivering market information. • Consider appropriate central agency for tracking and collation of information and its communication. Provide initial support to establish necessary systems and processes.	Total ~60 days for design and initiation of market information system	~$60,000	4	Start Sept 2014 Duration 18 months End Mar 2016
	Market promotion activities	• Develop market promotion activities to capitalise on recognition of the Solomon Islands timber legality system under Australian legislation.	Total ~25 days	~$25,000	5	Start Sept 2014 Duration 12 months End Sept 2015
		• Explore potential for and encourage trade of alternative timber species through engagement with importers.	Total ~20 days	~$25,000		Start Feb 2015 Duration 6 months End Aug 2015

Initiatives	Key activities	Component tasks	Indicative technical inputs[1]	Estimated cost (AUD)[2]	Priority[3]	Timing
		• Further investigate and explore possible new markets and value-adding, including: – Deriving value from currently non-valued products – Further processing to add value to current products – Exploring alternative mainstream markets.	Total ~35 days	~$35,000		Start June 2015 Duration 12 months End June 2016
Industry body development	Further development of timber IWG	• Investigate options and appropriate structures to facilitate further development of timber IWG. • Facilitate endorsement of preferred option through stakeholder consultation with industry and government. • Develop articles of association, and operating protocols. • Explore funding support and development of secretariat capacity.	Total ~35 days	~$35,000	8	Start Sept 2014 Duration 12 months End Sept 2015
Legality verification and forest certification support[4]	Support development of timber traceability systems	• Scope and develop systems to enable full traceability of timber along supply chains. – Scope and develop cost-effective system of log marking to enable tracing of timber from the source through to sawmill delivery (e.g. log marking with corresponding felling/milling licence). – Scope systems that may be used by sawmill enterprises to trace timber through processing to loading for export. – Develop guidelines and other tools required to facilitate the adoption of systems.	Total ~40 days	$50,000	10	TBD

Initiatives	Key activities	Component tasks	Indicative technical inputs[1]	Estimated cost (AUD)[2]	Priority[3]	Timing
	Support for forest management certification	• Provide efficient and viable certification support services to facilitate greater uptake of forest management certification by Solomon Islands producers. Possible approaches include: – Supporting specific business to prepare for certification, through gap assessments or financial support – Scoping and developing frameworks that could facilitate greater uptake of certification by small producers – Facilitating training programs in sustainable forest management and certification for small producers, in conjunction with MOFR's existing programs in this area.	Total around ~40 days	Indicative minimum amount ~$50,000. Dependent on scale of support, nature of businesses and scope of training programs.	9	TBD
			Potential cost for 2014–2016	**AUD ~550,000**		

Explanatory notes:

1. Indicative inputs over the specified duration for a suitable technical specialist and a technical professional.
2. Inclusive of anticipated travel and other costs.
3. Priority ranking as ascribed by the Timber IWG during meeting on 28 August 2014.
4. The two activities proposed under the Legality verification and forest certification support initiative were assigned priority 9 and 10 by the Timber IWG. Since making these priorities, feedback from some importers has indicated their desire to source certified, or third party verified, legal material. Given this, there may be scope to facilitate ongoing communication between importers and exporters with potential to re-prioritise these activities as appropriate.

7 LIMITATIONS

URS Australia Pty Ltd (URS) has prepared this report in accordance with the usual care and thoroughness of the consulting profession for the use of the Department of Foreign Affairs and Trade and only those third parties who have been authorised in writing by URS to rely on this Report.

It is based on generally accepted practices and standards at the time it was prepared. No other warranty, expressed or implied, is made as to the professional advice included in this Report.

It is prepared in accordance with the scope of work and for the purpose outlined in the contract dated 02 August 2013.

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APPENDIX A SURVEY QUESTIONNAIRE FOR SOLOMON ISLANDS TIMBER EXPORTERS

Pacific Horticultural and Agricultural Market Access (PHAMA) program

PHAMA
Pacific Horticultural & Agricultural Market Access Program

Improving the value of internationally traded Solomon Islands timber products

About the project

Thank you for agreeing to participate in this review of the current status and market opportunities of Solomon Islands timber in the Australian and New Zealand markets. This project has been funded by the Australian Government through the Pacific Horticultural and Agricultural Market Access (PHAMA) program set up under Australian Aid (AusAid).
This project is being led by URS Australia, a global consulting company with a expertise in the Asia-Pacific forest product industry and the trade in international forest products. URS has been operating in Australia and New Zealand and Asia Pacific for over 30 years .
The information you provide will be kept confidential and reviewed in aggregated form by the timber industry working group.

Company name	
Representative	
Address and contact details	

Please complete the following questions as fully as possible.

PRODUCTS SOLD TO THE DOMESTIC MARKET

1 **What proportion of your timber do you sell into export markets and domestically?** %

2 Of the domestic timber sales please provide the typical % sales by category

% of total sales	Green rough sawn	Air dried rough	Air dried, planed
Construction			
Furniture and			
Other (incl.			

3 What is the typical % of species sold domestically and the main uses?

Main species	% of domestic sales	Main uses
Pom		
Calophyllum		
Vitex		
Kwila		
Rosewood		

4 What are the main timber dimensions you supply and how do they vary by species and end use?

5 Do you grade your timber for sale and if so what grades are used?

6 What additional processing does your firm complete prior to selling (i.e. re-sawing, planning, drying) and what costs per cubic metre would this typically incur?

7 Would you support a uniform national timber grading system, why/why not?

8 Do you have any comments on the draft timber rules (provide a copy)?

PRODUCTS SOLD TO THE EXPORT MARKET

9 What export markets do you currently sell to (by %)?

Main species	Australia	New Zealand	Other
Pom			
Calophyllum			
Vitex			
Kwila			
Rosewood			
Other…….			

10 Have you sold to other export markets in the past?

11 What are the main timber dimensions you supply and how do they vary by species and end use?

12 Do you grade your timber for sale and if so what grades are used?

13 What additional processing does your firm complete prior to exporting (i.e. re-sawing, planning. drying) and what costs per cubic metre would this typically incur?

14 What other preparation do you complete in exporting? (i.e. collating boards into same sizes, strapping, other)

15 Is additional processing conducted by importers or the users of your timber? If so, what type of processing and for what purpose?

16 What are the three main reasons why importers purchase from your business compared to similar supplies from other countries such as PNG?

17 What are the three main reasons why importers do not purchase from your business compared to similar supplies from other countries such as PNG

18 What are the limitations to your business in respect to exporting more timber?

19 What type of commercial terms do you use when selling into export markets? For
-Sold on FOB or CIF basis?
-Letter of credit in your favour in place prior to sailing?
-Other forms of bank guarantees presented to you or the importer?
-What are the typical payment terms for you as exporter?

20 Do you consider these terms to be a good approach for your business? Are there alternatives terms or arrangements you would like to use?

GENERAL QUESTIONS

21 Have any specific issues (+ve and –ve) been raised by your customers in relation to the timber and the

22 Have your customers requested legality verification or sustainability certification?

23 What opportunities do you see for supplying new markets and developing new or

24 What supply, equipment or infrastructure would your business require to do this?

25 Could you provide contact information for your current and previous customers?

We thank you very much for your participation in this important project!

APPENDIX B SURVEY QUESTIONNAIRE FOR TIMBER IMPORTERS

PHAMA
Pacific Horticultural & Agricultural Market Access Program

Improving the value of internationally traded Solomon Islands timber products

About the project
Thank you for agreeing to participate in this review of the current status and market opportunities of Solomon Islands timber in the Australian and New Zealand markets. This project has been funded by the Australian Government through the Pacific Horticultural and Agricultural Market Access (PHAMA) program.

The information you provide will be kept confidential and reviewed in aggregated form by a Solomon Island's timber industry working group. In the case that you are interested in better access to Solomon Islands timber products or you have specific suggestions to pass on, we may, subject to your approval, pass this information on to the working group for a representative to follow up with you at a later date.

This project is being implemented by URS Australia, a global consulting company with a expertise in the Asia-Pacific forest product industry and the trade in international forest products. URS has been operating in Australia and New Zealand for over 30 years and but is headquartered in the US where it is listed as a public company on the NYSE.

About Solomon Island's timber
The Solomon Islands are located to the east of Papua New Guinea. Forestry is one of the country's biggest industries and is a significant source of national income, mainly through log exports to Asian markets. The Solomon Islands have native and plantation tropical forests with highly valued timber species including Kwila (Merbau), Akwa (Taun), Vitex (Vasa), Callophyllum and Rosewood. Most of the Solomon Islands commercial species are of high durability and are suitable for a wide range of building and other applications. There is also a village-based plantation Teak resource in the Solomon Islands of around 4,000 ha. Most of these plantations will be ready for harvest over the next 10 years.

Company name	
Representative	
Address and contact details	

Please complete the following questions as fully as possible.

1 What type of timber products do you purchase?

	✓/x	Imported? (which country?)	Volume?
Decking			
Flooring			
Joinery timber			
Structural			
Landscaping/fencing			
Other:			

2 Are any of these products imported? From where?

	Origin?	% of product purchase pa
Decking		
Flooring		
Joinery timber		
Structural		
Landscaping/fencing		
Other:		

3 Have you imported any timber products from the Solomon Islands?

	✓/x	
Yes, I currently do		If so, which products?
Yes, I previously have		
No, never		

4 Do you import any of the following tropical hardwood species?

	✓/x	Country?	Volume?	Comment
Kwila (Merbau)				
Akwa (Taun)				
Vitex (Vasa)				
Calophyllum				
Rosewood				
Teak				
Others (not specified)				

5 What type of timber products did you import?

	✓/x	Green or Dry, rough sawn or dressed?	Species	Volume pa?
General rough sawn				
Decking				
Flooring				
Joinery timber				
Structural				
Landscaping/fencing				
Other				

IF YOU IMPORT OR HAVE PREVIOUSLY IMPORTED SOLOMON ISLANDS TIMBERS PLEASE ANSWER QUESTIONS 6-9 BELOW

6 Did the Solomon Island's product fit your expectations? Please explain

7 Was the Solomon Islands product graded or ungraded? If graded, were they graded adequately?

8 Was the Solomon Islands product remanufactured locally for you or by your company? If so, could you please explain species/products, and why and how it was remanufactured?

9 Do you see specific opportunities for Solomon Islands timber to improve their product offering in terms of quality, dimensions or other attributes?

10 Where do you see the strongest growth opportunities for processed tropical timber products and why?

	✓/x	Growth? (Low, Med, High)	Comment
Green rough timber			
Dried/dressed structural/outdoor timber			
Decking			
Flooring			
Joinery timber			
Furniture componentry			
Other:			

Further comments

GENERAL QUESTIONS

11 Which products do you notice Solomon Islands timber competing most closely with?

Australian or New Zealand sourced products?

International tropical and non-tropical timbers?

12 What are the pros/cons of Solomon Island's product over its closest competitors?

Advantages

Disadvantages

13 Please rank the following attributes of Solomon Islands timbers from most to least important **(1=least; 5=most)**

Price	
Uniqueness of timber	
Quality - relative quality and/or consistency of quality	
Commercial terms (please specify...)	
Regularity of supply	
Sustainability assurance	
Legality assurance	

14 Are you aware of the timber legality assurance system in place in the Solomon Islands to provide better assurance on the legality of Solomon Island's product? If not, would this encourage you to consider Solomon's timber more strongly?

15 Has sustainability certification become more important to your timber business over recent years? Where do you see its future?

For further information on this project or to provide further comment in relation to the import and trading of Solomon Islands timber, please contact:

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APPENDIX C WORKSHOP OUTCOMES DOCUMENT

WORKSHOP OUTCOMES
Improving export markets for Solomon Islands timber

The workshop *"Improving export markets for Solomon Islands timber"* was held in Honiara on 26 June 2014.

The workshop was facilitated by MOFR and the Pacific Horticultural and Market Access program (PHAMA), an Australian-funded program assisting Pacific countries to increase exports of products from the agriculture, fisheries and forestry sectors. Attendees included Forest Officers, representatives of sawmills and timber businesses, and representatives of donor programs.

The main topic of discussion was export markets for Solomon Islands timber, and the opportunities to improve volume and value of those exports.

Outcomes of the market study

PHAMA has recently completed a study of the main export markets for sawn timber from Solomon Islands, which has included discussions with timber importers in Australia and New Zealand on the advantages and disadvantages of Solomon Islands timber, and an assessment of the potential for new markets and products. Discussions at the workshop focussed on the outcomes of this work and consideration of opportunities to progress the Solomon Islands timber industry.

The main export markets are currently Australia, New Zealand, Taiwan and Philippines. Timber is generally exported containerised as rough sawn timber, which is then reprocessed by importers and end users, typically for use in building, cabinetry and decking. Vasa and Rosewood are the two main species exported.

Importers generally would like to access a greater volume of Solomon Islands timber products. Prices have risen over the past years, reflecting this demand from the importing countries. However, importers and exporters have raised issues regarding timber from Solomon Islands, including lack of volume and consistency of supply, variable timber quality and container packing methods, along with concerns relating to sustainability and legality requirements.

Further initiatives

In light of these findings, the workshop identified several possible initiatives to help address these issues and strengthen the timber export industry. These included improvements in timber grading, market information, and providing support for businesses to improve quality and supply.

Following the workshop, these initiatives were discussed in detail by members of the timber industry working group, who also identified the type of specific activities required for their implementation.

These key initiatives and associated activities are outlined below:

1. Timber grading rules:

a) Develop national grading rules for the Solomon Islands timber sector (utilising existing draft grading rules).

2. Timber machinery use and maintenance:
    a) Assess current status and requirements for saw doctoring and other machinery maintenance requirements.
    b) Define skills development requirements and design a training program.
3. Business support:
    a) Outline potential business support requirements and design program of business support activities (e.g. possible funding or grant support for investments, machinery, infrastructure, etc.).
4. Market information:
    a) Facilitate an education mission for sawmillers and exporters to importing operations to better understanding requirements of existing markets.
    b) Design a process to provide timber markets pricing information services within Solomon Islands.
5. Market promotion:
    a) Prepare market promotion program for Solomon Islands timbers to capitalise on recent co-endorsement of legality guidelines by Australian Government.
    b) Explore potential for trade of alternative species.
6. New products/species development:
    a) Engage with importers to explore potential for new species or timber sizes to expand Solomon Islands timber trading.
    b) Assess Solomon Islands timber species for suitability in developing longer term markets.
7. Centralised marketing and sales:
    a) Design potential role and infrastructure of centralised marketing organisation focussed on the export of timber from Solomon Islands.

PHAMA will collaborate with MOFR, the timber industry and other donor programs to progress these proposed initiatives over the coming 2–3 years.

Further information

For further information or to provide any comments on this work, please contact:

- Andrew Sale, PHAMA, a.sale@phama.com.au (749 5736)
- Julius Houria, MOFR, houria_j@mofr.gov.sb

PHAMA

PHAMA is an Australian Government-funded initiative that provides practical and targeted assistance to support Pacific Islands countries to gain access for new products into new markets, and maintain and improve existing trade by helping them manage the regulatory aspects of exporting primary products. www.phama.com.au

APPENDIX D PROJECT CONSULTATION LIST

Company	Contact	Location
Scheduled meetings		
Bayswood Timber	Mike Drew, Managing Director	Melbourne, Victoria
Meyer Timber	Brian McCarthy, Chief Executive Officer	Melbourne, Victoria
Matthews Timber	John Hickey, National Sales Manager	Melbourne, Victoria
Britton Timbers	Dominic McNeil, Director	Sydney, New South Wales
Simmonds Lumber	John Simon, Chief Executive Officer	Sydney, New South Wales
Lazerides Timber	Gareth Lazerides, Director	Brisbane, Queensland
Moxon Timbers	Sam Ling, Asia-Pacific Procurement Manager	Brisbane, Queensland
Bootle Timber	David Mackay, Director	Brisbane, Queensland
Pacific Wood	Mal Goatham, Managing Director	Brisbane, Queensland
Britton Timbers	Martin Jones, QLD State Manager	Brisbane, Queensland
Agora Timbers	Theo Catsoulis, Director	Brisbane, Queensland
TLB Timber	Joe Chapman, Managing Director	Brisbane, Queensland
JSC Timber	Malcolm Scott, Hardwood Procurement Manager	Auckland, New Zealand
South Pacific Timber	Chris Vincent, Director	Auckland, New Zealand
Timspec	Chris Whiffen, Joint Managing Director	Auckland, New Zealand
Herman Pacific	Matthew Carter, Chief Executive Officer	Auckland, New Zealand
Rosenfeld Kidson	David Liggins, Managing Director	Auckland, New Zealand
Placemakers	N/A	Auckland, New Zealand
Walk in visits		
Hardie and Thomson	N/A; walk in visit	Christchurch, New Zealand
Halswell Timber	N/A; walk in visit	Christchurch, New Zealand
Chippy's Outdoor	N/A; walk in visit	Melbourne, Victoria
Ecowood Plus	N/A; walk in visit	Melbourne, Victoria
Barrenjoey Timber	N/A; walk in visit	Sydney, New South Wales

Company	Contact	Location
Warringah Timbers	N/A; walk in visit	Sydney, New South Wales
Narangba Timbers	N/A; walk in visit	Brisbane, Queensland
Honiara meetings		
Timol Timbers	Nanette Titua	Honiara
Lagoon Eco Timber	Ridolo Gebe	Honiara
Hatanga Hardwoods	Jay Bartlett	Honiara
Goodwood	Sofia Ling	Honiara
John Wesley Timber	Charley Wesley	Honiara
Top Timber	Terry Wu	Honiara
Top Timber	Thomson Piva	Honiara
Sol Pacific Timber	Philip Zetu	Honiara
Sol Pacific Timber	Fred Douglas	Honiara
Isabel Development Company		Honiara
VATA	Eric Tolilalo	Honiara
Pacific Export Alliance Group	Steve Wong	Honiara
PHAMA	Dale Hamilton, Technical Adviser	Honiara
PHAMA	Andrew Sale, National Market Access Coordinator	Honiara
Bank South Pacific	Rob Bochman, Relationship Manager	Honiara
Ministry of Forestry and Research	Felix Koraimae, Under Secretary (Administration)	Honiara
Ministry of Forestry and Research	Julius Houria, Director Timber Utilisation Division	Honiara
Ministry of Forestry and Research	Gordon Koniaramo, Under Secretary (Technical)	Honiara
European Union	Marc van Uytvanck, Attaché – Cooperation	Honiara
Ministry of Finance	Katherine Tuck, Economic Reform Unit	Honiara
Ministry of Finance	Primula, Economic Reform Unit	Honiara
Ministry of Finance	Bellamy, Economic Reform Unit	Honiara
Central Bank of Solomon Islands	Gane Simbe, Deputy Governor	Honiara
Central Bank of Solomon Islands	Raynick Aquillah, Chief Manager International Department	Honiara
Moxon Timber	Sam Ling, Group Procurement Manager	Honiara
New Zealand High Commission	Luke Kiddle, First Secretary – Development	Honiara
New Zealand High Commission	Mike Ketchen, Deputy High Commissioner	Honiara

APPENDIX E OPPORTUNITIES IDENTIFIED BY TIMBER IMPORTERS

E.1 Key opportunities in the Solomon Islands sawmilling and export industry as identified by Australian and New Zealand importers

Opportunity and description

1 Certification and timber sourcing

Improvements to funding and oversight of activities undertaken by VATA community-based timber program (or development of another similar program) to improve the availability of community sourced and certified timber.

Consideration of opportunities for more robust systems of sustainability certification to develop a relatively small but growing market for certified tropical hardwood timber.

2 Plantation teak

Developing links with potential Malaysian importers of plantation teak timbers.

Sending samples of wood to potential importers and producers to understand potential uses and price points.

3 Increasing volume of Akwa/Taun

Explore timber production and Australian and New Zealand markets with selected importers. This would require committing to a steady trial volume of Akwa timber trade over time.

4 Investments in further processing (equipment)

Docking saws to remove soiled and damaged ends of timber. Cheap and easily available docking saws or even a Makita drop saw would suffice and would clean up the timber significantly.

End painting or waxing to reduce end splitting. Some exporters are currently doing this. It is a cheap and effective practice to reduce the chance of end splits and is undertaken by most exporters internationally.

Blanking of timber using a thicknesser or other equipment to a) improve ability to grade over rough sawn surfaces; b) prevent poor squareness in the timber; and c) reduce snakiness in the timber. Apparently there are several thicknesser machines available in Solomon Islands at present and a re-conditioned old machine would suffice.

5 Investments in further processing (education)

Training locals how to use and maintain bandsaws and other sawmilling equipment.

Training locals how to dock timber.

Funding and training of an industry machinist.

Training on harvesting methods (to avoid tension and compression damage).

Education of timber dimensions, squareness and grading standards.

6 Centralised marketing

Potential for single buyer or group buying of logs based on standardised price and quality. This may be more feasible in some locations than others – for example, in Noro, where infrastructure is less developed and a group buying operation to buy FOB timber by barge from villages could be considered. Such an operation might require the centralised operation of a barge and truck and perhaps some finishing processing equipment at the port before the timber is shipped.

7 Centralised quality assurance

Funding of a third party timber grading inspector working to a set of timber grading standards that are acceptable to importers and exporters.

8 New products

Development of opportunities to market residues products – one example could be engineered FJ-Lam of lengths of timber too short to sell. Pursuing a market for the residues would allow sawmills to improve the recovery of value from the logs or flitches they are processing. Other products might include engineered parquetry flooring, particularly for Rosewood, which would use short lengths and 4 mm thick veneers glued to a plywood backing.

9 Education on end markets and customer needs

Funding of education tour to Australia and/or New Zealand for key industry representatives either focussed on developing market understanding and/or processing skills for people already working and making decisions in these parts of the Solomon Islands industry. A tour such as this could also be used to improve the working relationships of importers and exporters.

10 Improved systems of packaging and shipping

Training on packing systems:

- Use of strapped timber packs that can be loaded and unloaded by forklift to help lower labour costs in destination country
- Matching of thicknesses within packets to allow for easier sorting and racking for air drying by importers
- Staggered stacking on bottom rows to improve strength of bottom layers, which take all the weight and stress during unloading and are prone to breaking and coming loose.

Support for the procurement of more modern packing equipment and materials, including:

- Use of steel alternatives for strapping such as poly-woven or PET (polyester) that are cheaper, stronger, stay tighter for longer and do not stain timber. This would result in a less damaged, more professional product.

APPENDIX F INDUSTRY STRATEGY FOR SOLOMON ISLANDS SAWN TIMBER EXPORTS

Forest product exports are the largest export industry in Solomon Islands. Unprocessed round logs account for the large majority of trade, with an annual trade in 2013 of SBD1.5 billion (approximately AUD240 million). The level of harvest that supports this trade is unsustainable and Solomon Islands Government policy is to diversify and increase the level of value-added processing of timber for export.

Despite being much smaller than the log export sector, sawn timber is a significant sector for the Solomon Islands economy, with its exports being comparable in value to the cocoa and coconut industries. In 2013, the value of sawn timber exports was SBD81.5 million (AUD13 million).

In addition to timber exports is the domestic market for sawn timber and related products. The size of this market is difficult to quantify but is known to add significantly to the total value of this industry.

Production and processing of sawn timber is also a significant employer. It can be reasonably estimated that more than 1,500 people are directly employed in sawmills and timber yard businesses. In addition, many more are also engaged, directly and indirectly, in harvesting, shipping and transport, and associated businesses such as firewood production.

Sawn timber supply chain

Production of timber is commonly village-based and involves landowners harvesting trees and undertaking primary processing on-site (sawing a log into square ‘flitches’ or large dimension planks) before selling to sawmills that undertake further processing for sale into either domestic or export markets.

There are approximately 10–15 dedicated sawmill and timber export businesses, most of which are located in Honiara, with some also in Noro. In addition to these dedicated timber businesses, at any one time there are also several smaller operations that export timber on a periodic or occasional basis.

Current timber exports are mainly to Australia and New Zealand, as well as to Asian markets, including China, Philippines and Taiwan. Timber is generally exported containerised as rough sawn timber, which is then further processed by importers and end users to meet market specifications and product needs, typically for use in building, cabinetry and decking. Vasa (*Vitex cofassus*) and Rosewood (*Pterocarpus indicus*) are the two main species exported, with smaller volumes of Kwila (*Instia bijuga*) and Akwa (*Pometia pinnata*) also exported.

Challenges for the industry

The sawn timber export industry has had challenges relating to lack of volume and consistency of supply, variable timber quality and container packing methods, along with concerns relating to sustainability and legality requirements.

PHAMA has previously undertaken work to support the timber sector in being able to address timber legality assurance requirements for the Australian market.

More recently, PHAMA has completed additional work to: identify opportunities arising from this legality assurance work; clarify specific market requirements regarding quality to inform potential improvement by Solomon Islands timber industry; and investigate what opportunities may exist for supply to new markets and/or development of new products.

Industry working group priorities

Drawing on the outcomes of this work, opportunities for the Solomon Islands industry to improve value or business effectiveness have been identified in collaboration with the sawn timber IWG. The IWG has identified a suite of activities where further work to strengthen the timber export sector could be considered. These activities have been grouped under broad initiatives:

- Timber quality improvements;
- Enabling business environment;
- Timber marketing support;
- Industry body development; and
- Legality verification and forest certification support.

The table below outlines these initiatives and associated key activities and component tasks, along with indicative consulting inputs and costing.

Priority initiatives to support development of the Solomon Islands timber sector

Initiatives	Key activities	Component tasks	Indicative technical inputs[1]	Estimated cost (AUD)[2]	Priority[3]	Timing
Timber quality improvement	Timber grading rules	• Facilitate development and support implementation of a national system for timber grading in Solomon Islands (utilising existing draft grading rules). – Engage with domestic industry (producers and sawmillers). – Engage with representatives of importing industry. • Design and conduct awareness raising program relating to grading rules, including training in timber packing and loading systems.	Total ~75 days comprising: • ~45 days for system development and engagement with industry • ~30 days for design and implementation support for awareness raising activities	~$75,000	2	Start Sept 2014 Duration 18 months End Mar 2016
	Timber processing facilities	• Assess use and condition of timber processing machinery and existing timber handling practices, including requirements for saw doctoring and other machinery maintenance needs. • Define skill enhancement requirements and design complementary training program. • Explore opportunities for collaboration with importers as part of implementation.	Total ~35 days comprising: • ~15 days to assess capacity and requirements • ~20 days for program design	~$35,000	3	Start Nov 2014 Duration 6 months End May 2015
Enabling business environment	Access to finance	• Explore provision of possible business support facilities that could work with the timber sector to develop improved infrastructure and processing capabilities through facilitating improved access to finance. – Outline potential business support requirements and design program of business support activities. – Coordinate maintenance, review and reporting of program activities.	Total ~45 days comprising: • ~15 days for design of support program • ~30 days to support and review program functioning	~$50,000	7	Start Feb 2015 Duration 12 months End Feb 2016

Initiatives	Key activities	Component tasks	Indicative technical inputs[1]	Estimated cost (AUD)[2]	Priority[3]	Timing
	Improvements in business skills	• Develop and facilitate training or mentoring programs to improve skills within the timber industry in business planning and management.	Total ~25 days	~$25,000	6	Start Mar 2015 Duration 6 months End Sept 2015
Timber marketing support	Market information mission	• Facilitate a market education mission of Solomon Islands exporters to key markets in Australia and New Zealand to better understanding requirements of existing markets.	Total ~30 days	~$85,000	1	Start Sept 2014 Duration 3 months
	Establish market information services	• Develop provision of timber market information services to Solomon Islands producers, processors and other stakeholders. • Design a process to provide timber markets pricing information services within Solomon Islands. – Confirm data to be collected. – Confirm target audience and users of the information. – Confirm approaches to delivering market information. • Consider appropriate central agency for tracking and collation of information and its communication. Provide initial support to establish necessary systems and processes.	Total ~60 days for design and initiation of market information system	~$60,000	4	Start Sept 2014 Duration 18 months End Mar 2016
	Market promotion activities	• Develop market promotion activities to capitalise on recognition of the Solomon Islands timber legality system under Australian legislation.	Total ~25 days	~$25,000	5	Start Sept 2014 Duration 12 months End Sept 2015
		• Explore potential for and encourage trade of alternative timber species through engagement with importers.	Total ~20 days	~$25,000		Start Feb 2015 Duration 6 months End Aug 2015

Initiatives	Key activities	Component tasks	Indicative technical inputs[1]	Estimated cost (AUD)[2]	Priority[3]	Timing
		• Further investigate and explore possible new markets and value-adding, including: – Deriving value from currently non-valued products – Further processing to add value to current products – Exploring alternative mainstream markets.	Total ~35 days	~$35,000		Start June 2015 Duration 12 months End June 2016
Industry body development	Further development of timber IWG	• Investigate options and appropriate structures to facilitate further development of timber IWG. • Facilitate endorsement of preferred option through stakeholder consultation with industry and government. • Develop articles of association, and operating protocols. • Explore funding support and development of secretariat capacity.	Total ~35 days	~$35,000	8	Start Sept 2014 Duration 12 months End Sept 2015
Legality verification and forest certification support[4]	Support development of timber traceability systems	• Scope and develop systems to enable full traceability of timber along supply chains. – Scope and develop cost-effective system of log marking to enable tracing of timber from the source through to sawmill delivery (e.g. log marking with corresponding felling/milling licence). – Scope systems that may be used by sawmill enterprises to trace timber through processing to loading for export. – Develop guidelines and other tools required to facilitate the adoption of systems.	Total ~40 days	$50,000	10	TBD

Initiatives	Key activities	Component tasks	Indicative technical inputs[1]	Estimated cost (AUD)[2]	Priority[3]	Timing
	Support for forest management certification	• Provide efficient and viable certification support services to facilitate greater uptake of forest management certification by Solomon Islands producers. Possible approaches include: – Supporting specific business to prepare for certification, through gap assessments or financial support – Scoping and developing frameworks that could facilitate greater uptake of certification by small producers – Facilitating training programs in sustainable forest management and certification for small producers, in conjunction with MOFR's existing programs in this area.	Total around ~40 days	Indicative minimum amount ~$50,000. Dependent on scale of support, nature of businesses and scope of training programs.	9	TBD
			Potential cost for 2014–2016	**AUD ~550,000**		

Explanatory notes:

1. Indicative inputs over the specified duration for a suitable technical specialist and a technical professional.
2. Inclusive of anticipated travel and other costs.
3. Priority ranking as ascribed by the Timber IWG during meeting on 28 August 2014.
4. The two activities proposed under the Legality verification and forest certification support initiative were assigned priority 9 and 10 by the Timber IWG. Since making these priorities, feedback from some importers has indicated their desire to source certified, or third party verified, legal material. Given this, there may be scope to facilitate ongoing communication between importers and exporters with potential to re-prioritise these activities as appropriate.

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