



# The China Wood Products Market - How It Will Impact (Your) Business in North America: How China is Changing Global Markets

## NAWLA Webinar

By: **Russell Taylor & Gerry Van Leeuwen,**  
**International WOOD MARKETS Group,**  
**Vancouver BC**

International WOOD MARKETS Group Inc.

## WOOD MARKETS' Speakers

**Gerry Van Leeuwen**



- ◆ 15 trips to Russia
- ◆ 20 trips to China

**Russ Taylor**



- ◆ 8 trips to Russia
- ◆ 12 trips to China



# Introduction to: International WOOD MARKETS Group

- We are wood products industry consultants and we assist companies around the world to develop operational, marketing & business strategies.
- **In China:** we have an office; we conduct industry tours; we have hosted conferences; we conduct industry and market research; we publish a variety of reports on China (statistics; prices; outlooks).
- We produce Multi-Client Reports: Europe & Russia; Clearwood Pine; Global Lumber Benchmarking; The China Book; WOOD Markets 2000, 2002, 2006, 2010; & the WOOD Markets Monthly Report



## WOOD Markets' Multi-Client Reports

## Presentation Outline

### The China Wood Products Market - How It Will Impact (Your) Business in North America: How China is Changing Global Markets

- 1.China: Log Imports
- 2.China: Lumber Imports
- 3.China: Wood Panels & Furniture
- 4.Russia: Impact of Russian Log Export Tax
- 5.China: Fibre Supply Gap
- 6.North American Lumber's Fit in China

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## CHINA: Growing Role in Global Trade

### China's rank in wood products global trade:

<u>Production:</u>	<u>Global Rank</u>
• Plywood	#1
• MDF	#1
• Blockboard	#1
• Furniture	#1
• Hardwood lumber	#2
• Particleboard	#3
• Softwood lumber	#3 (after US & Canada)
• Finished Products	Soaring
• Imports	#2 (after the USA)
• Exports	#1

**China needs IMPORTED RAW MATERIALS  
to run its processing plants!**

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## China: Trends & Issues

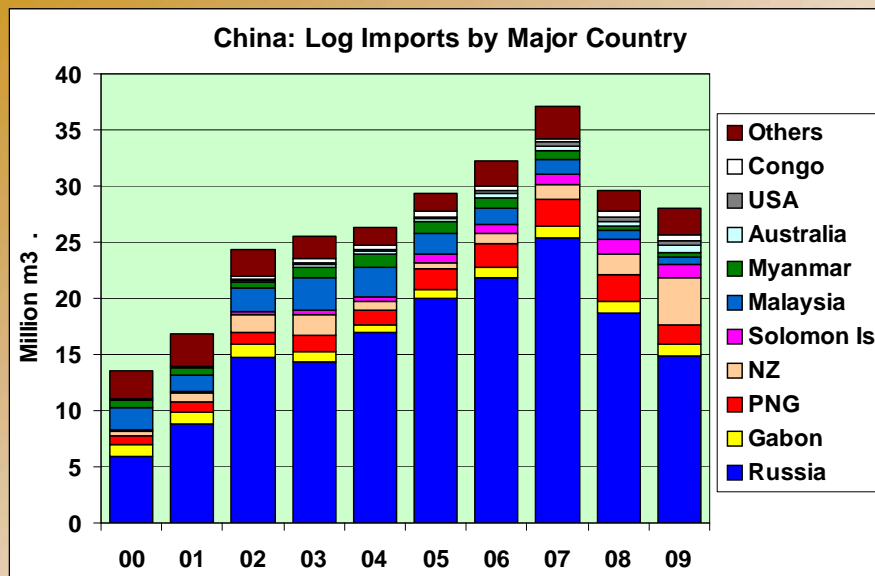
### Economic Growth & Wood Products Demand:

- Strong economic growth in China = has rebounded quickly and strongly since early 2009 and is expected to continue at 9+%.
- China's domestic wood products demand growing at about 9-10% per year and this huge growth trend is forecast to continue to at least 2015 (Source: **WOOD MARKETS' *The China Book***).
- China consumes about 75-80% of its domestic production, so the GDP growth and wood products growth are tied closely.
- Trends in China's industry and imports follow.

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## Russia = China's Largest Log Supplier

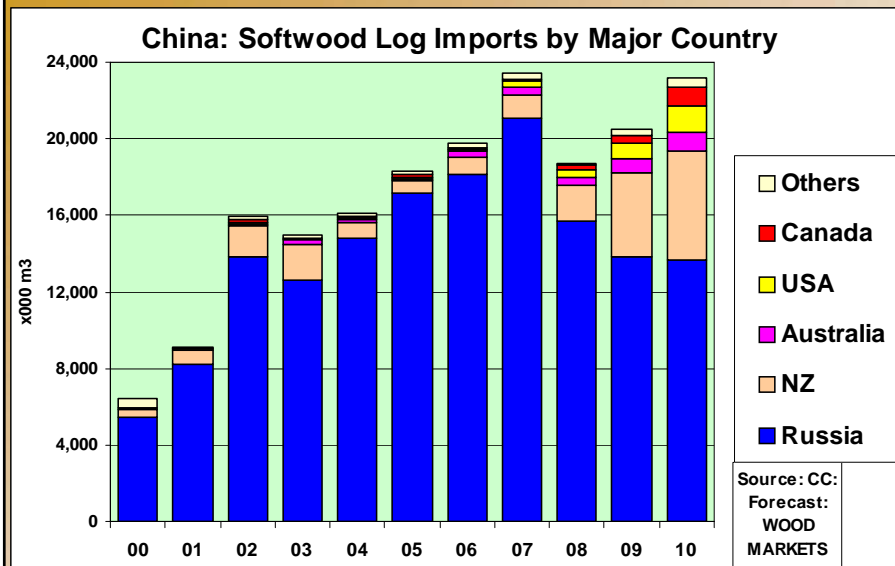


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China needs huge volumes of logs to supply its factories



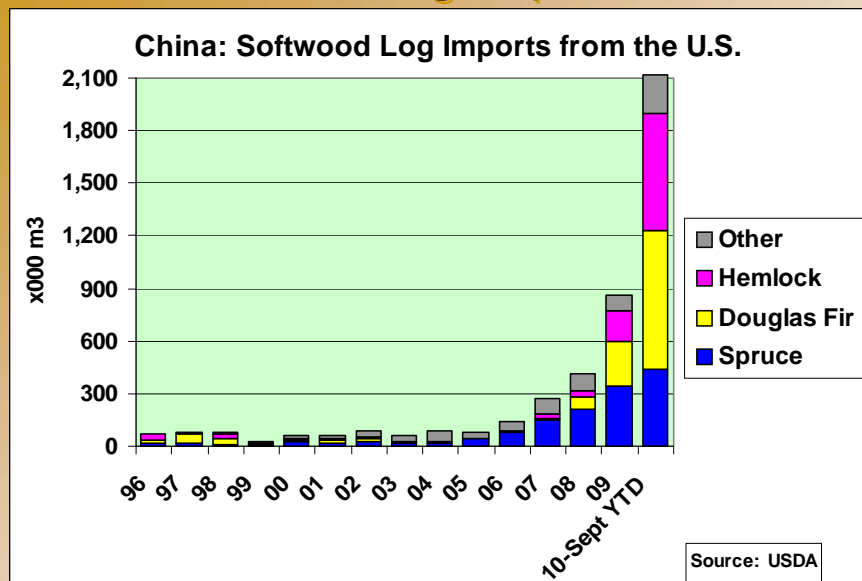
## China: Softwood Log Imports



9 Russia still dominates, but NZ, US & Canada exports rising



## US Softwood Log Exports to China

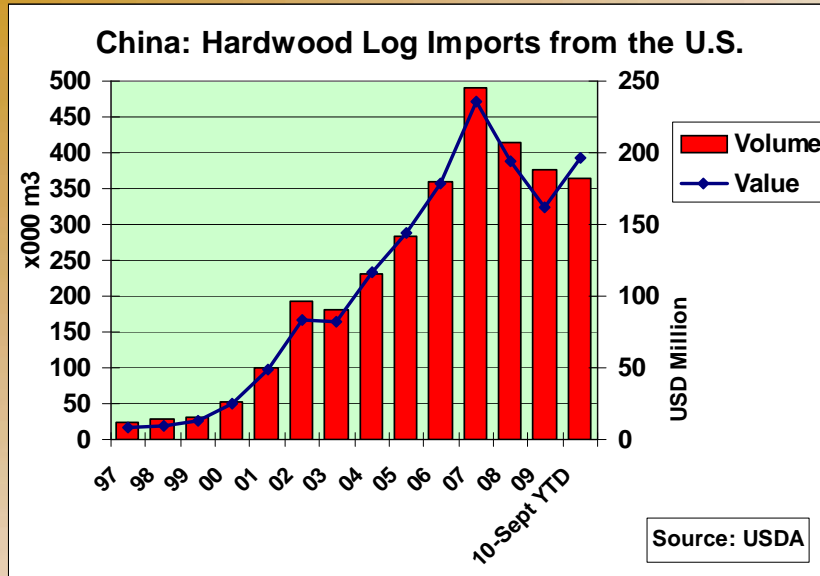


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Huge growth expected to continue



## US Hardwood Log Exports to China

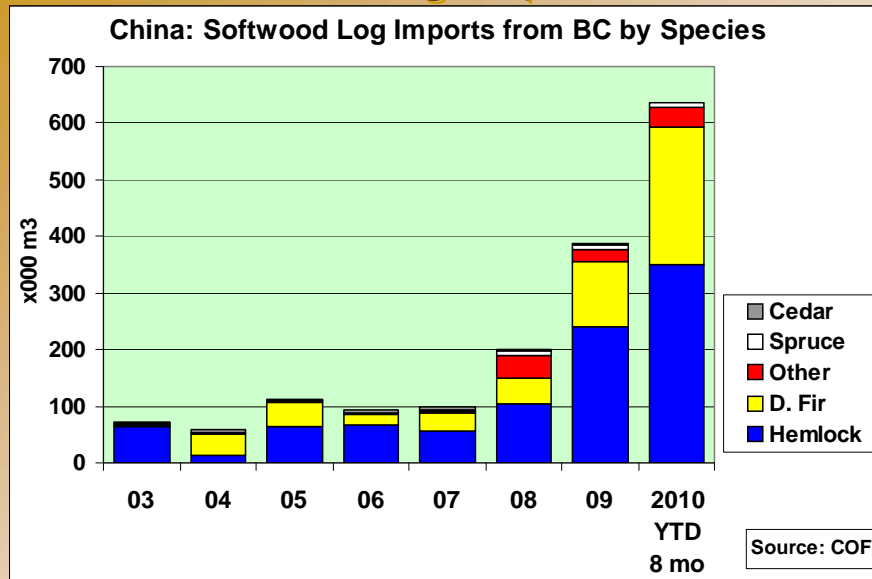


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Steady growth expected to continue



## BC Softwood Log Exports to China

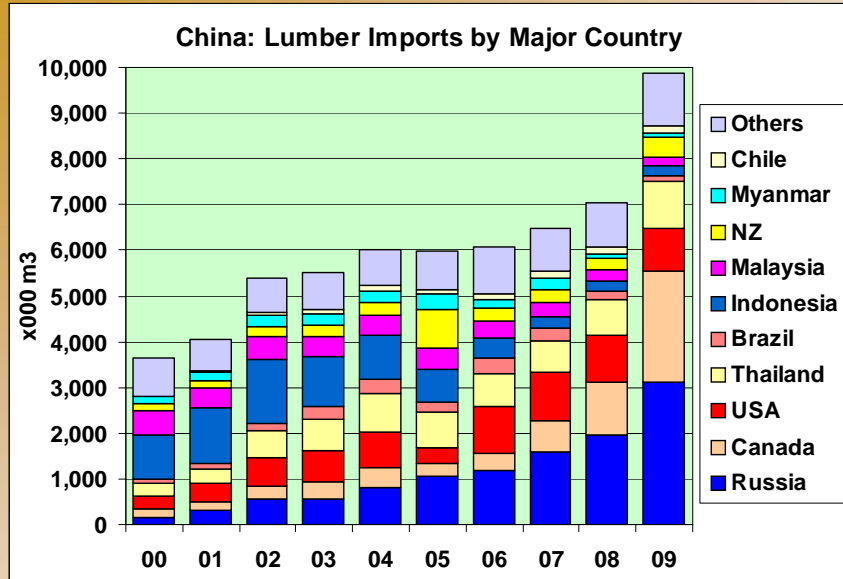


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Huge growth expected to continue



## 2. China Lumber Imports Still Growing

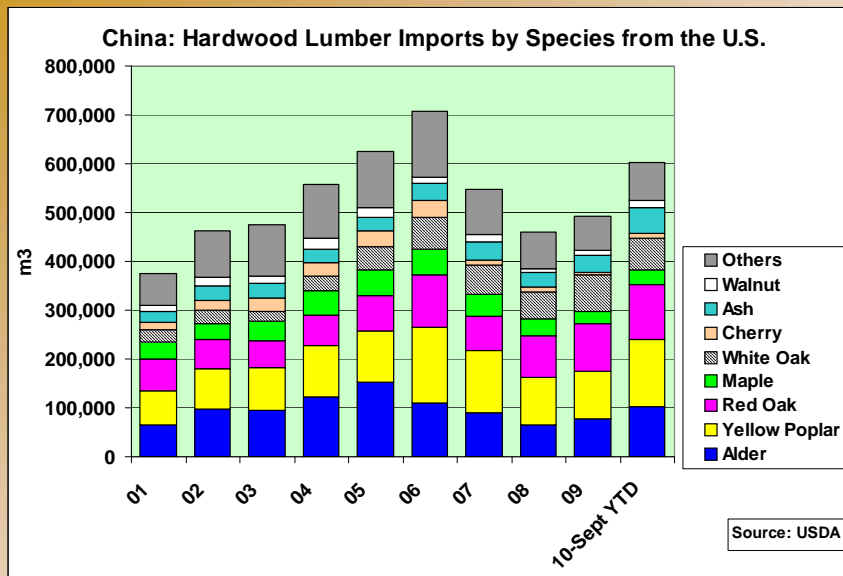


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Russia, Canada and US are the largest lumber suppliers



## US Hardwood Lumber Exports to China



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Steady growth expected to continue



## China: Perfect Storm for BC Exports

- China's soaring economic growth & wood demand
- Russian log export tax – created a log shortage with higher log prices
- US housing market collapse & weak demand
- Low US lumber prices created favourable returns in China (including low freight rates)
- China offers volume to BC sawmills
- Lumber quality (MPB lumber) not an issue
- Early government promotional efforts and then government-to-government relations have been excellent timing once the Russian log export tax created shortages.

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## BC SPF making inroads in China

Imports of Canadian SPF Economy, Utility/#3 and some #2&Btr. have increased dramatically in the last two years.

- SPF lumber is used mainly as construction lumber for formwork, scaffolding, dunnage, pallets.
- Construction lumber = based on price, not quality
- More SPF used in small-sized interior finished lumber (ripped from SPF wide dimension).
- SPF lumber is replacing expensive Russian logs = filling a void that Russian lumber (and logs) cannot fill
- Russian un-sorted grade lumber = cost ~15-20% more in 2009, but better quality than SPF #3.

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## B.C. Lumber Exports To China

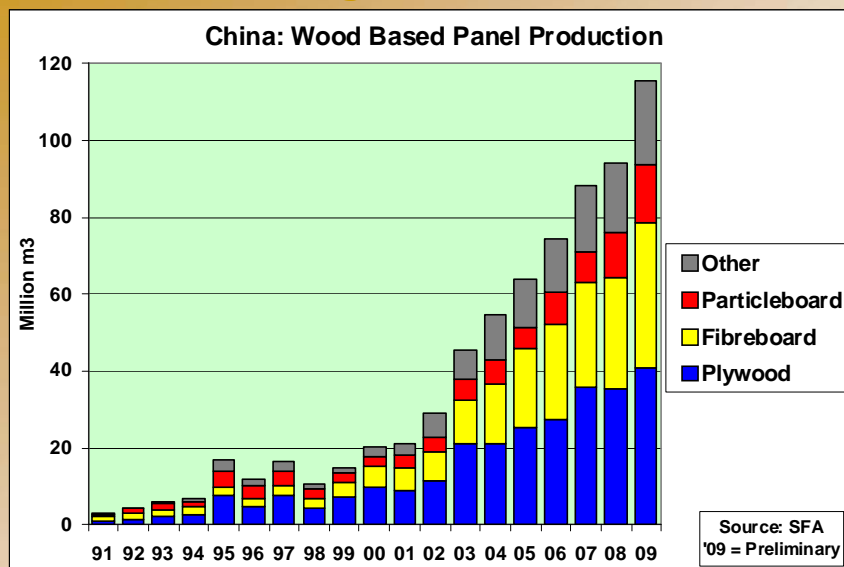
B.C. is now working with the Chinese government to offer a variety of long term solutions:

- Earthquake-resistance (engineered) homes and buildings.
- Wood frame housing.
- Wood roof trusses.
- 6-storey walk up apartments.
- Energy-efficient building solutions.
- Reduced carbon footprint.
- Looking a longer term solutions & partnerships.
- Tied to less Chinese reliance on Russian wood.
- = Opened the door for US lumber



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## 3. China Huge Growth in Panels

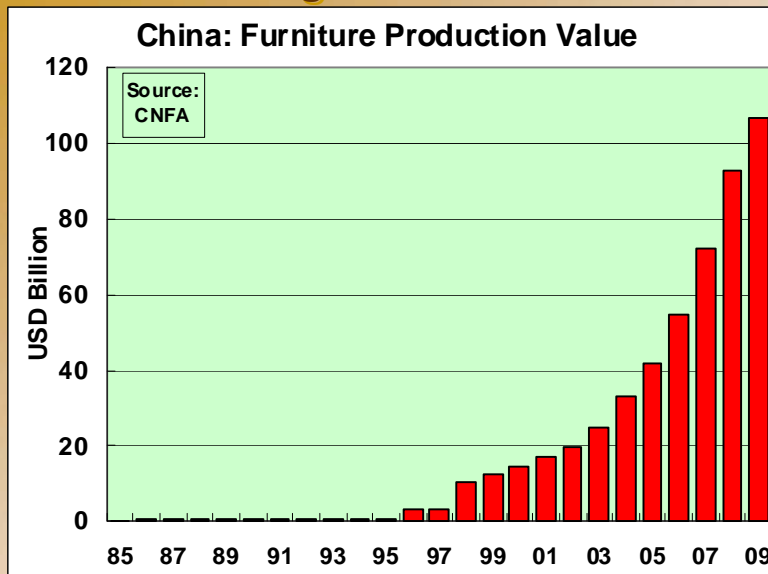


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China = #1 Plywood and MDF producer



## China's Huge Furniture Growth



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Furniture consumes plywood, MDF, PB, lumber, etc.



## China: Trends & Issues

### 4. Russian Log Export Tax Schedule

- Starting in April, 2008, the 25% log export tax has caused turmoil in China as higher prices and lower volumes have been the rule.
- Russian log prices have been driven higher and this has caused the Chinese industry to look for new log and lumber suppliers to fill the log supply “gap” (of some 10 million m3).

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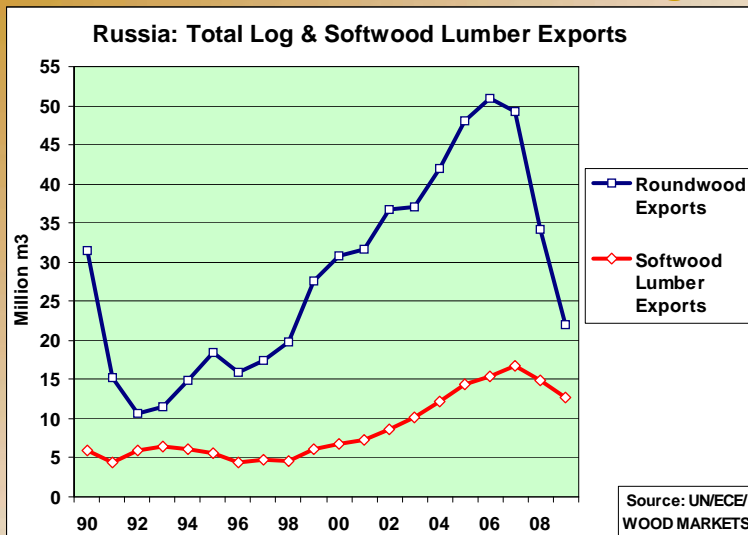
## RUSSIA: Timber Export Tax

- For softwood logs, the tax has risen:
  - from 6.5% to 20% (euro 10/m<sup>3</sup>) in July 2007.
  - to 25% (euro 15/m<sup>3</sup>) in April 2008.
  - to 80% (euro 50/m<sup>3</sup>) in Jan. 2012 - **DELAYED**
- For hardwood saw/veneer logs, the export tax is already at euro 100/m<sup>3</sup>.
- For birch pulpwood, the tax has been delayed.
- **Now the Russian log export tax may reduced by 50% to 67% after Russia joins WTO = more unknowns**
- Russia is 40% of world's softwood log export supply & 30% of hardwood log exports, so this export tax is dramatic for its core customers

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## Russia Exports Now Plunging from Global Economic Crisis & Log Tax



Russian exports have collapsed, soared & now collapsed

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## Russian Log Export Tax - Implications

There will be a new supply realignment of replacement log and wood products to rebalance supply in the most affected countries.

- Russian logs will be replaced: Domestic + imported log sources + lumber and perhaps OSB or plywood.
- Which countries or companies are most likely to offer supply solutions to the importing countries?
- Due to logistics, the Pacific Rim countries (including NZ) will be major benefiters in selected products, grades and species to Asia (and also may see less growth in imports from Asia).

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## 5. China: Trends, Issues & Gap

China's total "wood" demand:

- Is expected to grow from 250 million m<sup>3</sup> in 2010 to 350 million m<sup>3</sup> by 2015 (a conservative 8% per year).
- The projected wood deficit (or the role of imports) is expected to grow from 100 million m<sup>3</sup> to 150 million m<sup>3</sup> – Roundwood Equivalent (10% per year).
- However, Chinese industry forecasts indicate that China's wood demand should grow more at a rate of 10-15% per year to 2015, so the import gap could be up to double what is currently forecast.
- Where will the additional (100-200) million m<sup>3</sup> (RWE) of imports come from over the next 5 years??

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## China: Trends & Issues

**Filling the Chinese wood (raw material) gap in 2011-2015 will mainly come from:**

- Increased log imports from Russia (export tax?)
- Increased log imports from New Zealand.
- Increased log imports from US & Canada.
- Increased log imports from Australia, etc.
  
- Increased lumber imports from Russia.
- Increased lumber imports from Canada & USA
- Increased lumber imports from NZ, Australia, Chile, etc.

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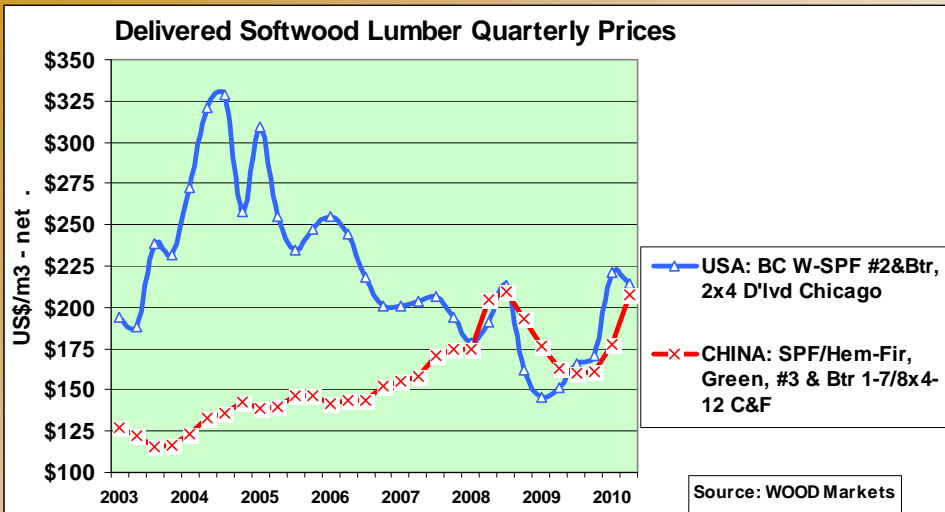
## 6. North American Lumber's Fit in China

- North American lumber is part of the new supply mix feeding China, as well as:
  - Russian logs & lumber
  - U.S. and Canadian (B.C.) logs
  - New Zealand (radiata) logs & lumber
  - Other softwood lumber sources
  - A variety of tropical & temperate hardwood logs & lumber
  - Domestic Chinese logs & lumber
- Prices and volumes continue to move higher as China's supply options diminish.

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## Chinese Prices Look Better to NA Mills..

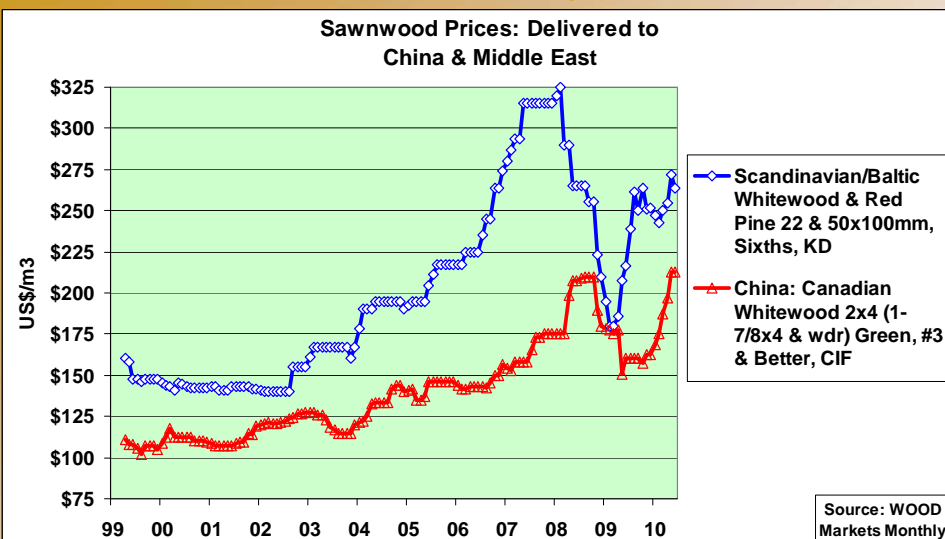


**BC, Oregon, Washington mills now running for China as it is possible to make money selling to China!**

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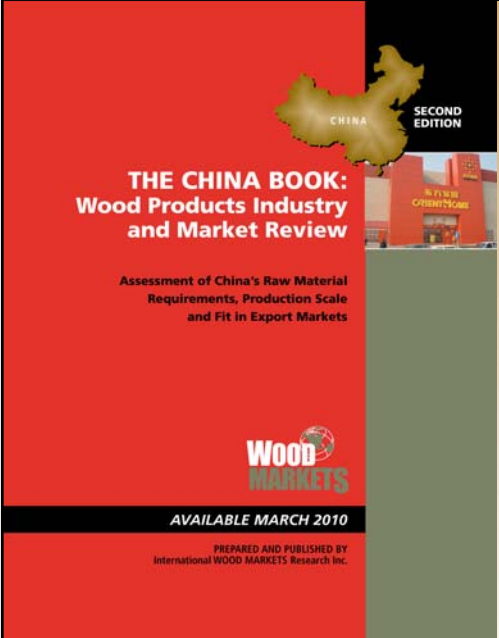
## ... but Not to European Mills



**There are better returns for Europeans in N. Africa, Middle East, Pakistan, etc. vs. China**


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**WOOD MARKETS' China Bulletin**  
**Monthly Since 2007**

Featuring:  
 Industry Trends & Analysis, Statistics  
 +  
 Import/Domestic Log, Lumber & Panel Prices

29 The 5-year outlook; or monthly log/lumber prices/updates 

**Russia/China Fit in Global Markets**

- China = largest log importer in the world.
- Russia = largest log exporter in the world.
- China needs Russia; Russia needs China.
- Russian log export duties will further increase China's log costs (labour, energy, transportation costs as well as its currency have already increased).
- **Need to keep your eye on China & Russia, as a potential "supply crunch" can occur & drastically change global trade flows in export markets!!**

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## China – Impact on Domestic Business

### Impacts include:

- **Surging demand from China disrupting US scene**
- **Higher prices for western lumber (#4, #3 and now #2 grades – even some J-grade and clears).**
- **Improved lumber mill order files and demand.**
- **Most of direct benefit = west coast business (SPF, Douglas-fir, hem/bal), but some sales now coming from SYP region + hardwoods.**
- **Indirect business = ripples through market as suppliers shift supply away from U.S. market.**
- **Many more disruptions are expected!**

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## China – Impact on Domestic Business

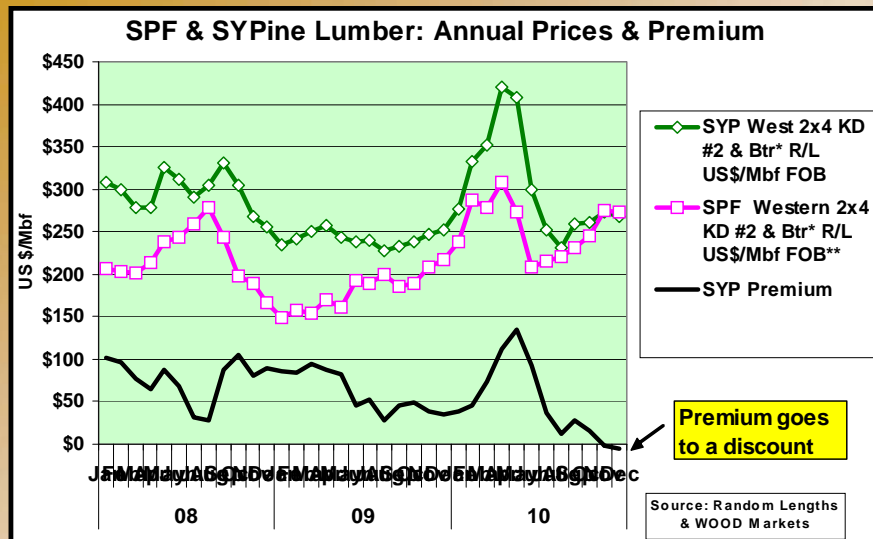
**“Minneapolis” or central US wholesaler – can’t really play in China, as logistical costs are too high, but needs to:**

- **Watch his mill suppliers’ order files who sell to China, as price bubbles keep occurring.**
- **Watch his buy/sell price & lead time for mill deliveries, as China’s demand is impacting US supply/demand balance.**
- **Export mills are playing less in US and more in China (and also Japan, Korea, Middle East).**
- **Scarcity of low grade lumber = going to China.**
- **Need to keep your eye on China!**

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## SYP Premium to W-SPF Erodes to Zero



Historical Premium goes to a Discount – due to China



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China's Need for Imports: There will be major winners and losers in terms of importers, exporters and producers

- It likely that US, Canadian, Southern Hemisphere (& later European) exporters will be real winners in log exports as well as lumber, plywood, chips & pulp
- There are many scenarios as to how supply and demand will be rebalanced, but it is very clear at this point that continuing supply changes are going to occur – **this will drive global trade flows in 2011+.**
- China will require huge supplies of imports!
- China offers huger opportunities for exporters!
- China will continue to disrupt the US market!



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Thank You!

Russell Taylor, President  
Gerry Van Leeuwen, Vice-President

**International WOOD MARKETS Group Inc.**  
**Vancouver, B.C., Canada**

Suite 501 - 543 Granville Street  
Vancouver, BC V6C 1X8  
Tel: (604) 801-5996 or -5998 / Fax: (604) 801-5997  
Email: [retaylor@woodmarkets.com](mailto:retaylor@woodmarkets.com)  
[gvl@woodmarkets.com](mailto:gvl@woodmarkets.com)  
[www.woodmarkets.com](http://www.woodmarkets.com)

