China’s Wood Product Market – Baseline Scenarios

A Preliminary Summary of Trends and Projections for the Medium Term
Paper and board growing 4-fold, mostly in P&W and packaging

Source: He and Barr, 2004
Sharp increase in demand for waste paper and wood fiber

Source: He and Barr, 2004
Pulp, paper, and paperboard have led imports

In 2003, total imports = 106 million m$^3$
- 40 m$^3$ timber products
- 48 m$^3$ pulp
- 18 m$^3$ paper & board

Source: Sun et al, 2004
Pulp and paper – key issues

• Will China meet targets for domestic wood pulp capacity?
• Can domestic wood pulp producers compete globally?
• Is there are limit on waste paper supply – globally? Domestically?
• What are the implications of closing nonwood pulp mills?
  – Effects on water pollution
  – Employment losses and effects on local economies
Plywood production > 12 m m3/yr
Exports > 2 m m3/yr

Source: Jaakko Pöyry, 2004
MDF capacity = 15.6 m m3/yr (2005)

- 5.8 million m3/yr new capacity installed during 2004-2005
- 66% of global capacity expansion during last 2 years was in China!
- China’s industry now bigger than Europe

Source: Jaakko Pöyry, 2004
Sharp decline in plywood imports

Source: Sun et al, 2004
Wood panels – key issues

• Driven by rapid growth of furniture, construction, and interior decoration
• Can furniture exports continue to grow at current pace?
• Considerable scope for growth in domestic furniture market
• Likely trend towards higher value-added end-uses – i.e. laminated flooring, decorative paneling
• Environmental standards, esp. in Japan, will affect exports
• Projection – continued growth, supply problems, raising costs, rationalization & restructuring
Baseline Scenario: Furniture (1)

Current industry structure:
- 50,000 firms, 5 million employees;
- 80% of product is wood furniture;
- $32 billion turnover, export value $7 billion US/a (#1 in world, up from $5 billion in 2000); 80% of export product is wood).

Future:
- Total turnover $40 billion, export value $10 billion by 2010 (i.e. growth slow but not stop: from 37%/a to 15%???)
Baseline Scenario: Furniture (2)

• Threats/drivers/constraints:
  – Wood supply (costs, quality), (solid wood and panels)
  – Trade constraints (dumping tariffs, EU “legal sourcing” rqmts)
  – Low profits, increasing labor costs, competition from Vietnam, etc

• Trends:
  – Wood supply shift from low cost (illegal) to NA hardwoods and other higher cost sources
  – Trade constraints slow exports down – but not significantly
  – Industry “rationalize, restructure” over next 5-10 years (“upheaval and adjustment”)
Baseline Scenario: Sawnwood, Flooring

- **Sawnwood:**
  - Growth in imports, but nothing like panel
  - New industry in NE based on RFE supply
  - Trends: continued ↑ imports, industry shifting to RFE???

- **Flooring**
  - follow “furniture” patterns; growing domestic and export market, bamboo capture some share (from other countries)
Baseline Scenario: Primary Production: Domestic & Imports

- China not meet official target (no net imports by 2015); domestic production stable until 2010 – then increase 25-40 million m$^3$/a?? If/when policy barriers relaxed;
- Imports (now 120 million m$^3$) $\uparrow$ to 200 by 2010????
  - Supply from current sources decline through med term, except Russia, remain stable @ 18
  - % share from Asia $\downarrow$, replaced by $\uparrow$ timber from NA (canadian beetle kill), $\uparrow$ pulp/chips from SAm, Auz/NZ
- Question: where will wood come from and at what cost?
Some ‘What If…’ Questions

-- please suggest others
Questions to Consider…. (1)

• What if China’s GDP growth slows to 7 percent? Or 5 percent?
Questions to Consider…. (2)

• What if the Chinese Yuan appreciates in value by 10 percent?
Questions to Consider….

• What if the Chinese government removes the logging ban and lifts other restrictions on domestic timber production?
Questions to Consider…. (4)

• What if governments in Russia, Indonesia, Malaysia, and/or PNG reduce illegal timber flows by 50 percent?
Questions to Consider…. (5)

• What if China falls short in meeting its target of 13.3 million ha of fast-growing plantations by 2015?
  – By 30 percent?
  – By 50 percent?
Questions to Consider….

• What if China’s access to US and European furniture markets is restricted – either due to trade barriers or competition from new producers?
Questions to Consider….  (7)

• What if India’s GDP continues to grow at 9-10 percent per annum?
• To what extent will China and India compete for the same resources?
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Questions to Consider.... (9)

• What if oil prices stay above US$ 50 per barrel?
Questions to Consider….

- What if significant new processing capacity comes online in Russia?
- In Indonesia?
- In Malaysia?
- Elsewhere?
Concerns

- Paul: housing market slump, how much substitution between panels and other?, who are winners and losers (between sectors, efficient and inefficient producers),
- Dequan: what if China has substantial supply shortages? Possibilities: non-wood fiber not decline, imports increase, china increase waste collection
- Gary: 1) what if China’s wood supply forecast is ½ official projection; 2) what if the levels of subsidies continue to escalate globally – what distortions will this add
- Steve: what is domestic fiber supply, what opportunities (at what cost) for additional supply
- Chen: will China allow competition between companies;
- Brian: what effect of the beetle infected wood from Canada into China (2.1 billion m3 over 10 years)
- Anders: what happens if major political conflict affecting Chinese economy
- Alexander: what will be the prices, what will be interior transportation, what will be interior processing? Reasonable to expect 2X increase in harvesting (if increase in p’s)
- Alexey: expect more liberalization in Russia, oil prices will determine timber supply, If increase, strong ruble, (strengthening) and then decreased export; continued competition with Japan (p’s increasing in Japan); so what if prices change
- Christian: if E p’s remain high (or increase) – how will that affect transport? Or what if China; what cost of labor (land and labor availability) in plantation sector?
- Keith: to what extent Thailand continue/expand rubberwood, pulp export to China? Cambodia/Laos – can they put in place a sizable plantation sector for China – and what role from Japan
- Xiufang: environmental concerns increase? (e.g.) what if certification scheme is adopted in China – what affect on production; what if EU puts restrictions on imports from China?
- Bintang: what if Indo controls illegal logging?
- Achmad: what if another economic crisis in E Asia?
- Maxim: what if another flood in China – extend logging ban? Think that environmental concerns will grow in China – curtailing domestic production.
- Changjin: exchange rate and possible political unrest are possible, domestic housing market ???; could be changes in export policies of wood products; possible effects of a major privatization process of timberland ownership (e.g. of state land), result in higher prices (because less illegal wood – which would result in increase imports; (reverse could happen because govt could lift policy constraints)
- Doddy: change in global economic; what if substantial increase in substitution? What if global political shift affecting wood trade; what if illegal logging ban change;
- Tim: what if poverty; what if greening of markets; what if serious due diligence?
- Sten: think of positive “what if’s”; e.g. ma