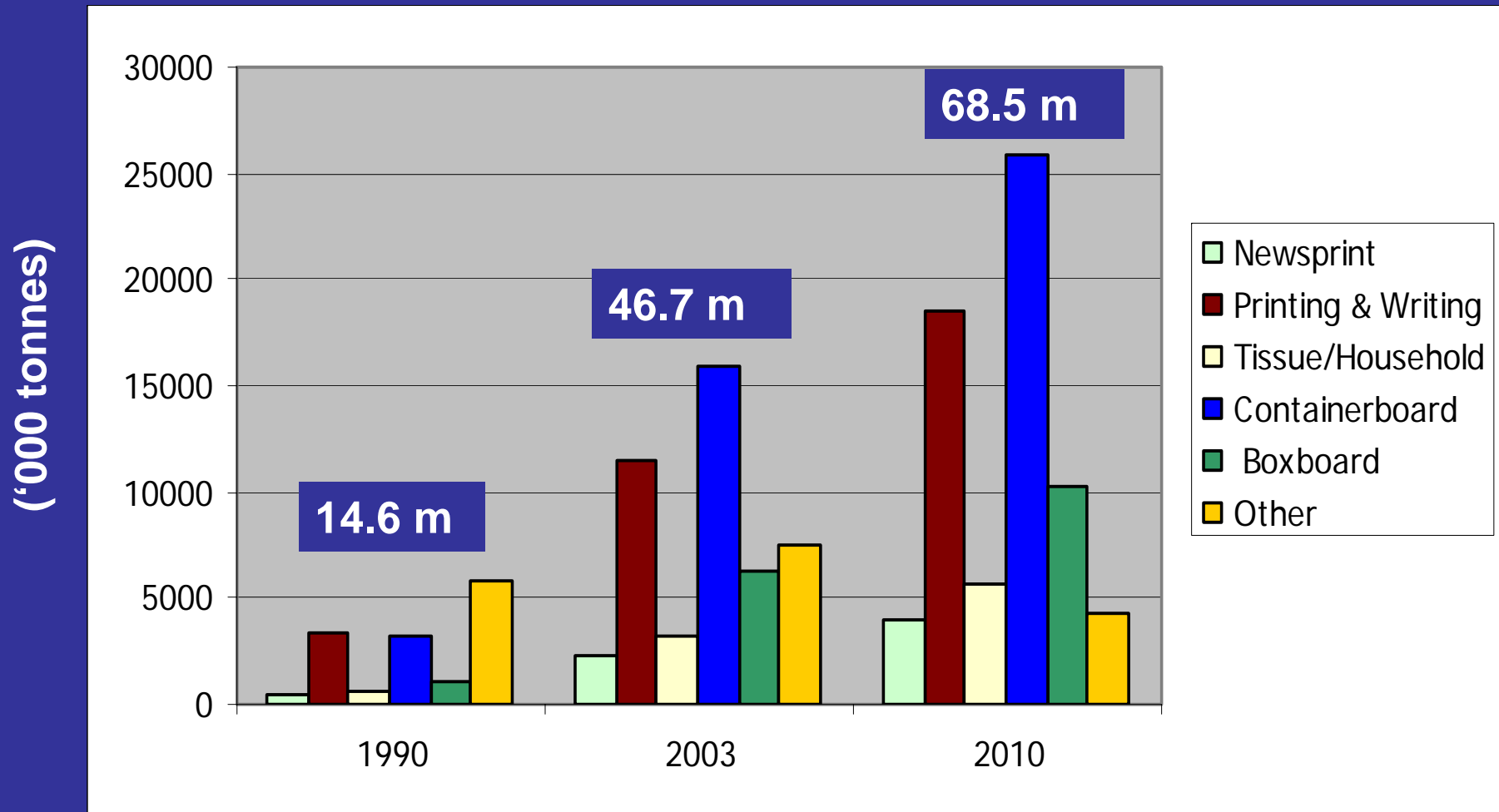


# China's Wood Product Market – Baseline Scenarios

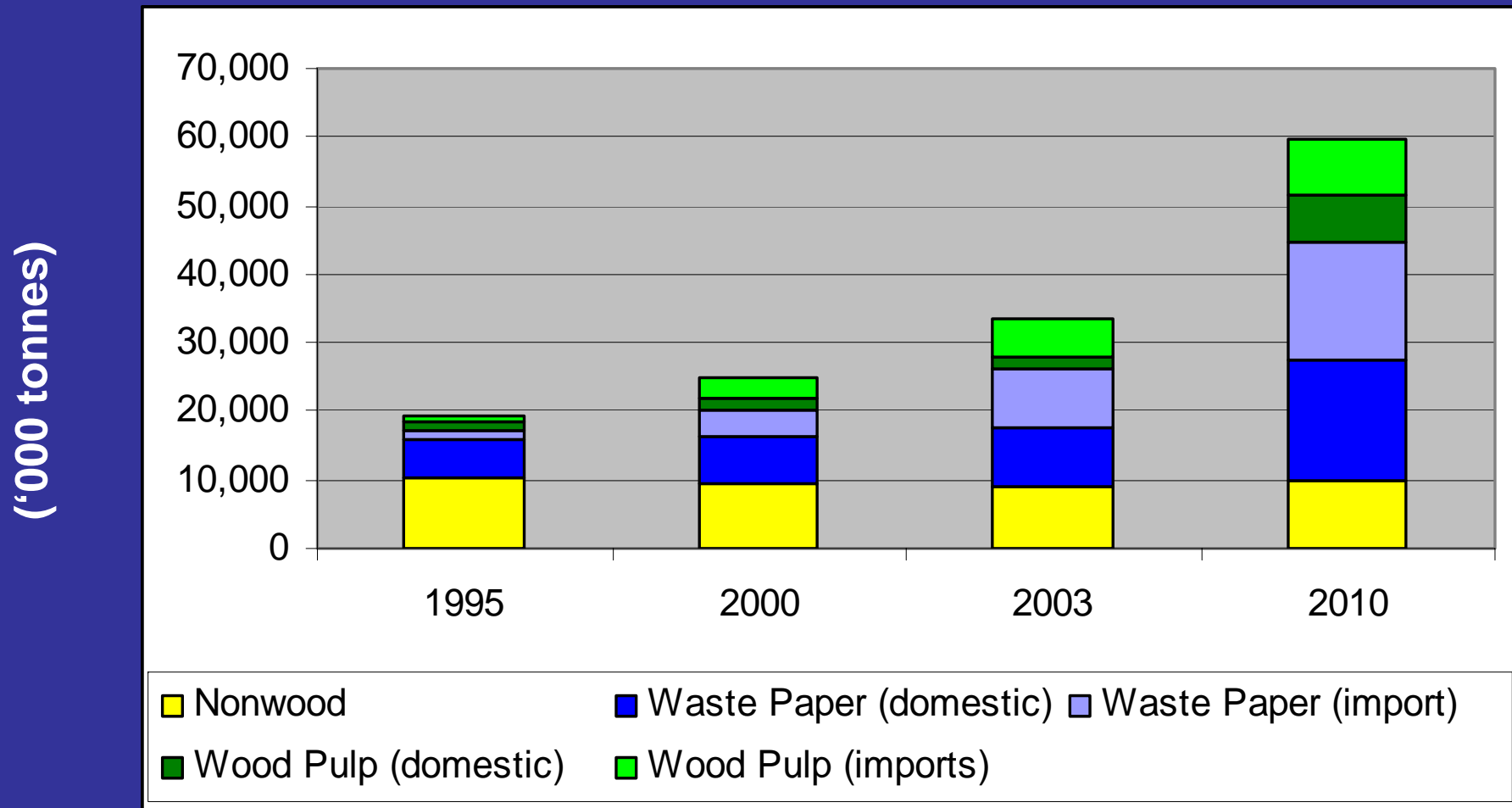
A Preliminary Summary of Trends  
and Projections for the Medium Term

# Paper and board growing 4-fold, mostly in P&W and packaging



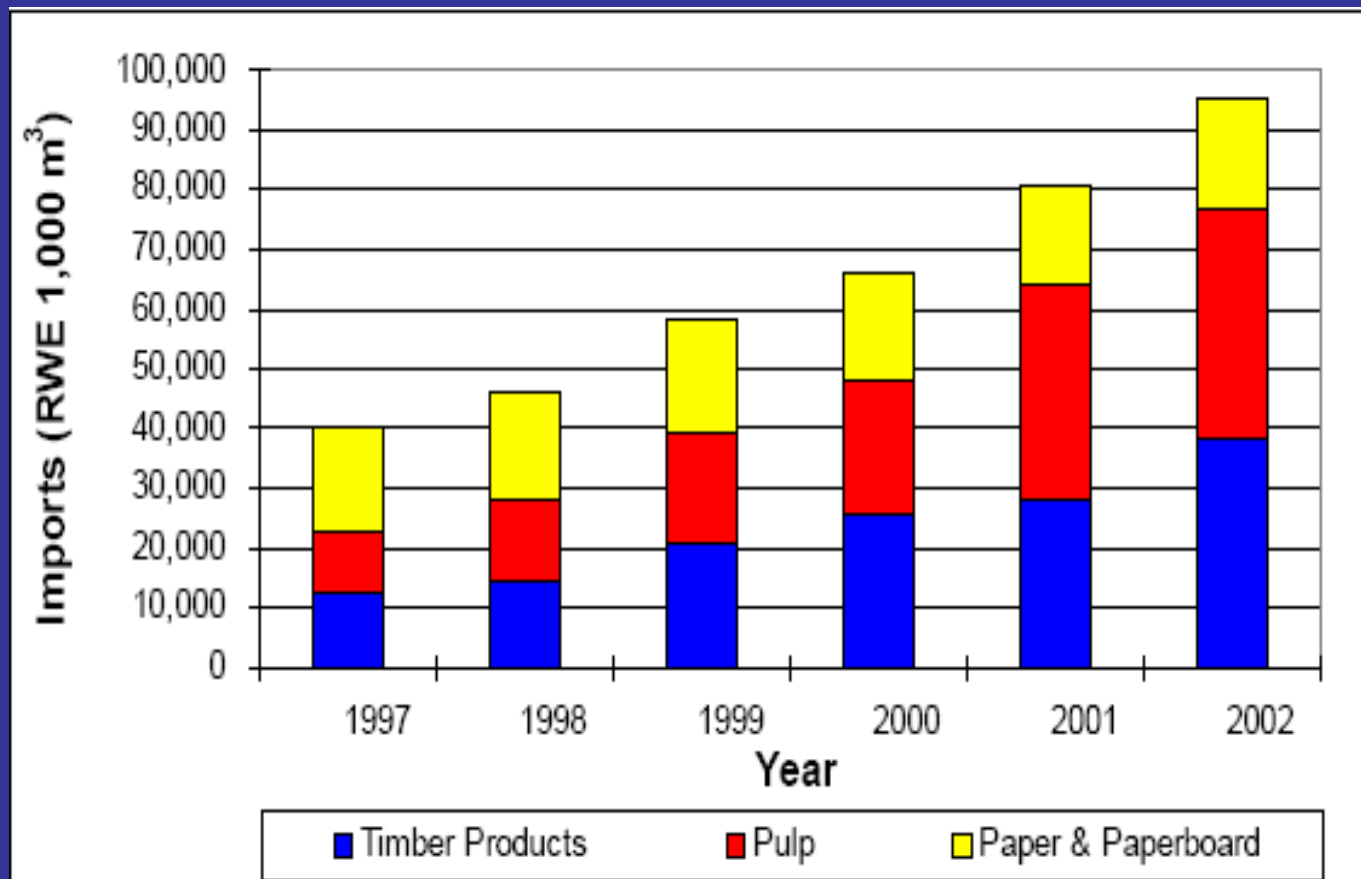
Source: He and Barr, 2004

# 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<sup>3</sup> RWE

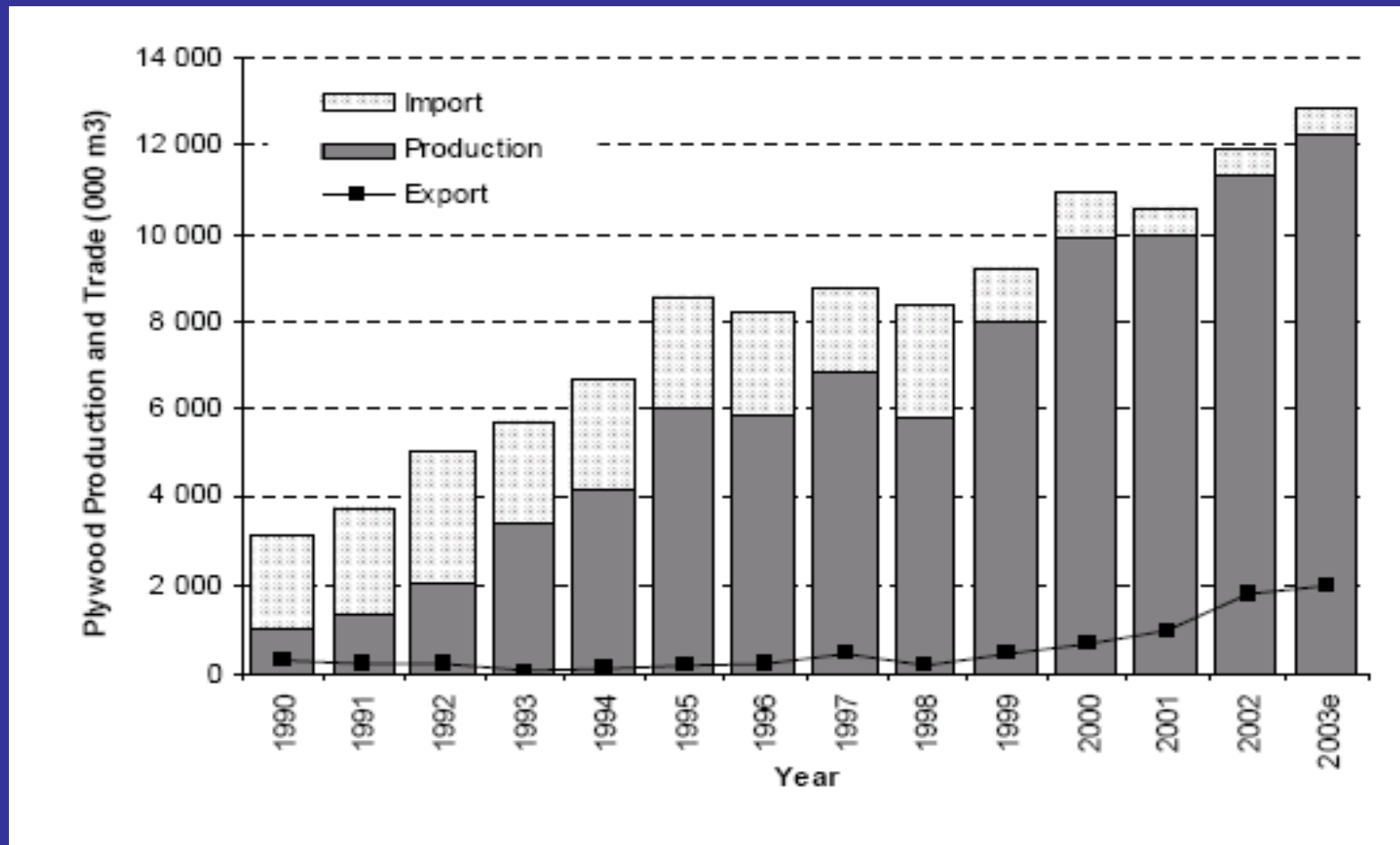
- 40 m m<sup>3</sup> timber products
- 48 m m<sup>3</sup> pulp
- 18 m m<sup>3</sup> paper & board

Source: Sun et al, 2004

# Pulp and paper – key issues

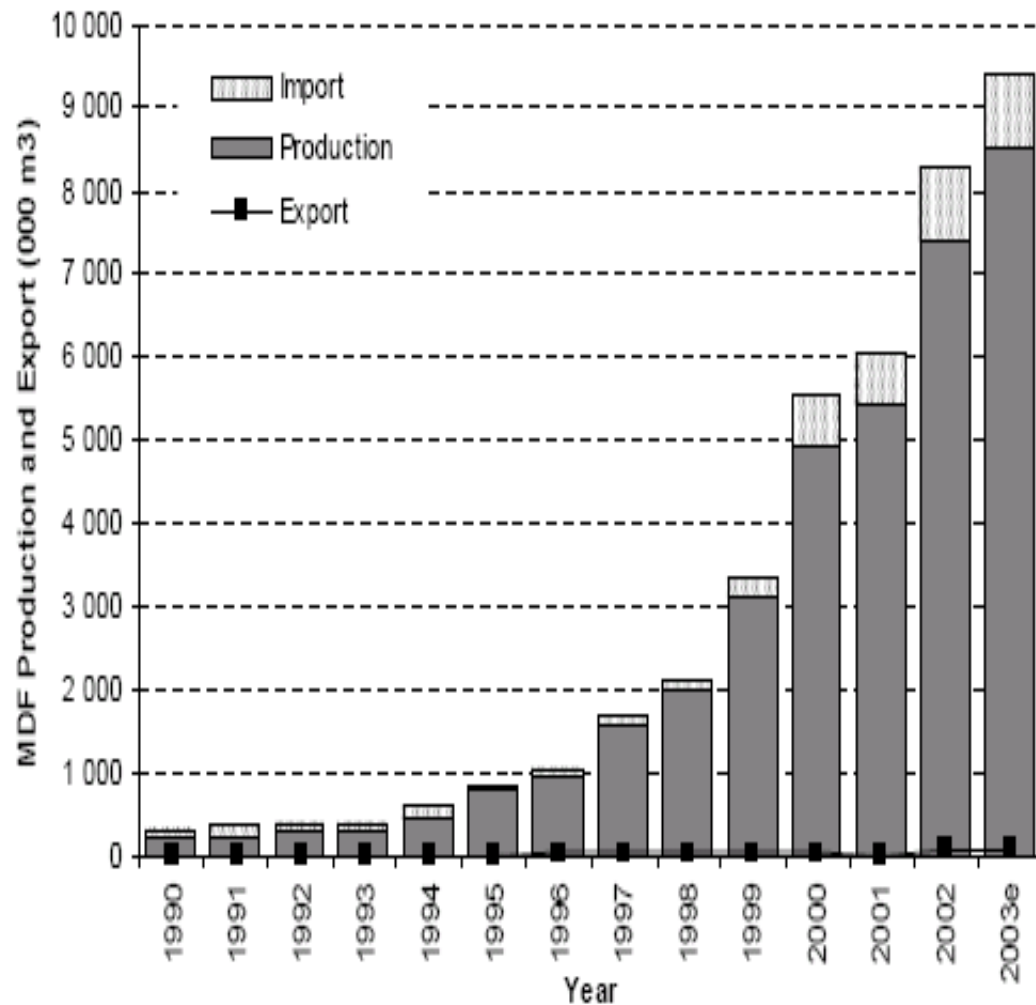
- Will China meet targets for domestic wood pulp capacity?
- Can domestic wood pulp producers compete globally?
- Is there are limit on waste paper supply – globally? Domestically?
- What are the implications of closing nonwood pulp mills?
  - Effects on water pollution
  - Employment losses and effects on local economies

Plywood production > 12 m m<sup>3</sup>/yr  
Exports > 2 m m<sup>3</sup>/yr



Source: Jaakko Pöyry, 2004

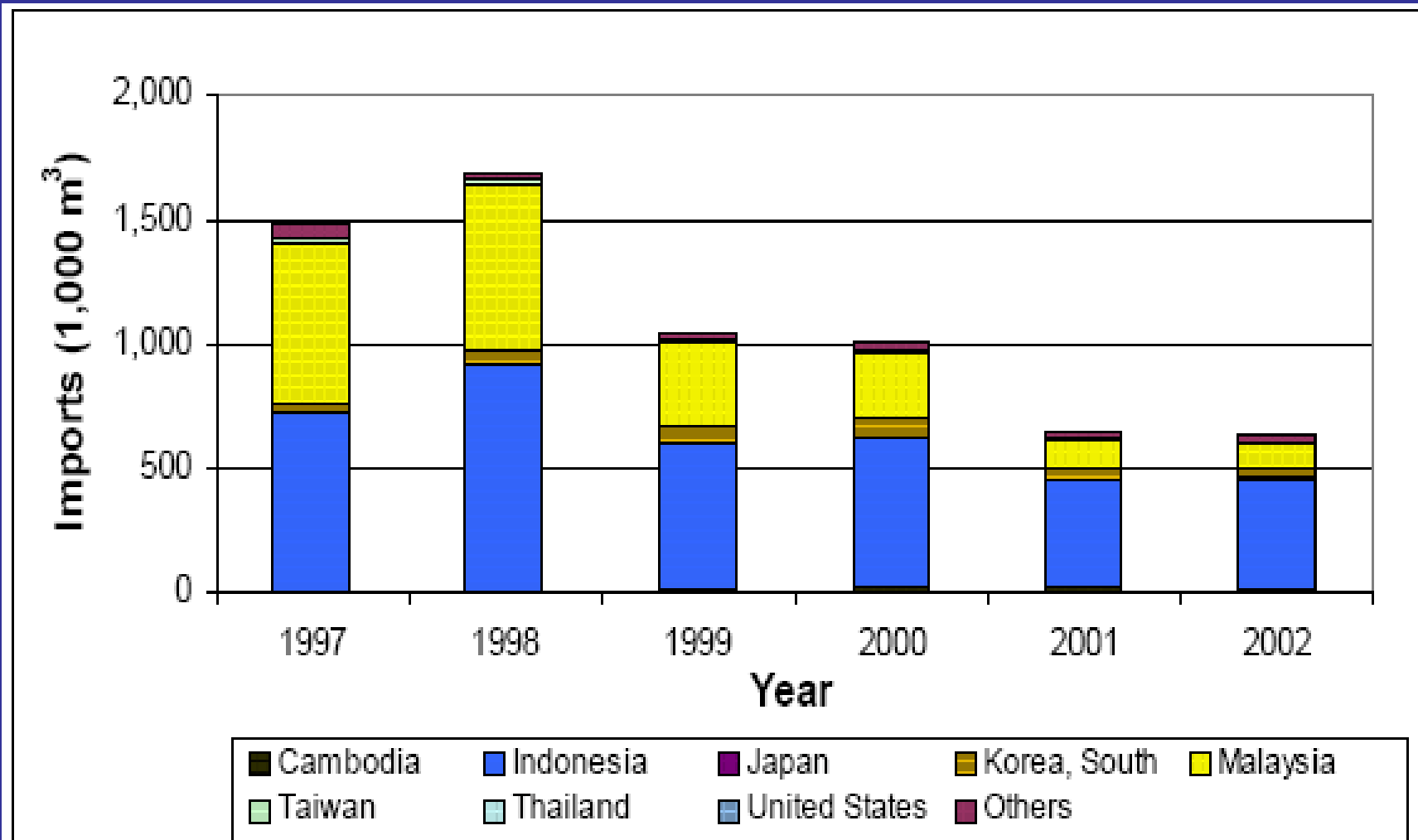
# MDF capacity = 15.6 m m<sup>3</sup>/yr (2005)



- 5.8 million m<sup>3</sup>/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<sup>3</sup>/a?? If/when policy barriers relaxed;
- Imports (now 120 million m<sup>3</sup>) ↑ to 200 by 2010????
  - Supply from current sources decline through med term, except Russia, remain stable @ 18
  - % share from Asia ↓, replaced by ↑ timber from NA (canadian beetle kill), ↑ 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.... (3)

- 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.... (6)

- 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?

## Questions to Consider.... (8)

- 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?

# Questions to Consider.... (9)

- What if oil prices stay above US\$ 50 per barrel?

## Questions to Consider.... (10)

- 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