



China: Softwood Log and Lumber Imports

Opportunity for Radiata Pine Log Exports

**By: Gerry Van Leeuwen, Vice President,
International WOOD MARKETS Group**

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
- ◆ 10 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.
- We are known as global market & industry experts/analysts on timber, lumber, panels & many millwork products sold in the U.S. market & key export markets.
- 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

2nd Edition

GLOBAL WOOD BOOK



TRENDS & STATISTICS

Country Profiles of Softwood (& Hardwood) Wood Products Industries

Featuring

- Profiles of more than 35 of the largest producing, importing, exporting and consuming countries that drive the international wood products industry and markets
- Regions examined include Europe, Asia, the Southern Hemisphere, North Africa/the Middle East and North America
- Coverage of softwood (and hardwood) production and consumption trends in timber harvests, lumber/sawwood, plywood, OSB, MDF and particleboard
- Economic (and housing) trends profiled for most countries
- Full statistical sections provide more than 300 data tables and summary graphs
- Over 350 pages

Available April 15, 2009

From the publishers of WOOD MARKETS MONTHLY INTERNATIONAL REPORT, WOOD MARKETS 1996, 2000, 2002, 2006, 2010 and many other strategic industry reports

2011 EDITION

WOOD MARKETS

The Solid Wood Products Outlook • 2011 to 2015

A DETAILED ANALYSIS OF THE NORTH AMERICAN WOOD PRODUCTS MARKET

COVERING: Lumber, OSB, Plywood, MDF and Particleboard

FEATURING: A Five-Year Outlook for Supply, Demand and Prices, including Mill Operating Rates

INCLUDING: An Economic Analysis of the U.S. Housing-Market Recovery and the Key Demand Drivers

Prepared and published by International WOOD MARKETS Group Inc.

WOOD MARKETS logo

LUMBER PANELBOARDS TIMBER ENGINEERED WOOD ECONOMICS MARKETS FORECASTS

GLOBAL LUMBER/SAWN WOOD COST BENCHMARKING REPORT

Featuring:

- A profile of the major sawn wood-producing regions in North America, Europe and the Southern Hemisphere
- Benchmarking of log costs, sawmilling costs, lumber revenues and margins for over 25 key countries or regions
- Includes full-year costs/revenues for 2008, with a timely update on cost structures occurring in Q1/2009 (just before the release date)
- Assessment of currency fluctuations and transportation on delivered costs to market by exporting country
- Cost summaries and analyses based on information gathered directly from sawmill visits
- Enhancements for this report include sawmill performance at actual and "normal" operating rates

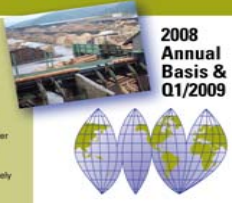
2008 Annual Basis & Q1/2009

Available April 30, 2009

WOOD MARKETS logo

THE WOOD GROUP logo

In association with PACCAR WOODHOUSE GROUP logo



WOOD MARKETS MONTHLY INTERNATIONAL REPORT

VOLUME 11, NUMBER 1 • FEBRUARY 2009

Featuring Lumber, Panels and Wood Products Analysis



Global Competitiveness

Low-Cost Labor Regions Winning

In many global products (such as furniture, cabinets, flooring, millwork and doors) and even commodities (like plywood), low labor rates provide a competitive advantage. This has been especially evident in the U.S. in terms of furniture imports from China, and also in plywood and millwork shipments from Brazil and Chile. The relative competitiveness of China versus Canada and the U.S. is very evident (Figure 1). Essentially, countries like China and Vietnam can employ forty to fifty workers for the price of one North American worker. As we illustrate in our China cost report, countries like China are now accumulating state-of-the-art capital with low labor rates to achieve the lowest production costs in the world. So, depending on your industry, beware!



WOOD MARKETS UPDATE: You will notice a new look this month! Since we are now starting our eleventh year of publishing WOOD MARKETS, we thought it was time for a makeover. In the same time, our company has been expanding, so we have also re-branded ourselves to reflect the growing recognition of our WOOD MARKETS monthly report and other publications and conferences.

The new graphic contained in newsletter material shown will also be the logo for our new brand company name, International WOOD MARKETS Group. This will include all of our publications (primarily under the International Wood Markets Research Inc. name) and also all the activities of our consulting services group (previously conducted under the company name I.W.M. Taylor & Associates USA). In addition, we are moving to larger offices across the street effective February 1, so please note our new mailing address at the bottom of page 12. All of our existing email addresses, as well as phone and fax numbers, remain unchanged.

In our next monthly issue of WOOD MARKETS we will further profile the changes — in terms of ownership and expanded services, along with some other new developments — that have occurred as our company continues to grow.

WHAT'S INSIDE

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GLOBAL PRICE TRENDS




CLEARWOOD (PINE) LUMBER, MOULDING & MILLWORK SECTOR

OUTLOOK TO 2012

FOURTH EDITION

Published by International Wood Markets Group www.woodmarkets.com



NEW TO THIS EDITION:

COST BENCHMARKING OF FINGER-JOINT AND NDF MILLWORK PRODUCTION FOR MAJOR PRODUCING REGIONS.



FEATURING:

- An in-depth insight for senior executives looking to evaluate their corporate business strategies and options in the clearwood lumber and moulding sectors.
- A review of the strategic implications of domestic vs. offshore clearwood pine lumber production/markets.
- A detailed assessment of the U.S. moulding market segments by product and supplying region, including MDF.
- Five-year supply, demand and price forecasts on clear pine lumber and mouldings (SL, FL, MDF).

THE CHINA BOOK: Wood Products Industry and Market Review

Strategic Assessment of China's Growing Force as the World's Low-Cost Production Engine & Exporter

PREPARED AND PUBLISHED BY International WOOD MARKETS Group, Inc.

WOOD MARKETS logo

NEW AVAILABLE

R. E. Taylor & Associates Ltd. logo

INTERNATIONAL WOOD MARKETS RESEARCH INC. logo

CHINA FIRST EDITION

FEATURING:

- A comprehensive overview of China's wood products industry and its global competitiveness
- Assessment of China's timber resources and imported raw material supply sources
- Timely analysis of China's evolving distribution system for softwood/hardwood products
- Chinese domestic market consumption and its far foreign wood imports
- An overview of investment opportunities and insights on "Doing Business" in China



Presentation Outline

Why China is one of the world's most important export markets

1. China: Trends & Issues
2. China: Industry & Log Import
3. China: Wood Products Trends: Imports/Exports
4. China: Fibre Gap
5. China: Fit for NZ logs and lumber
6. Summary

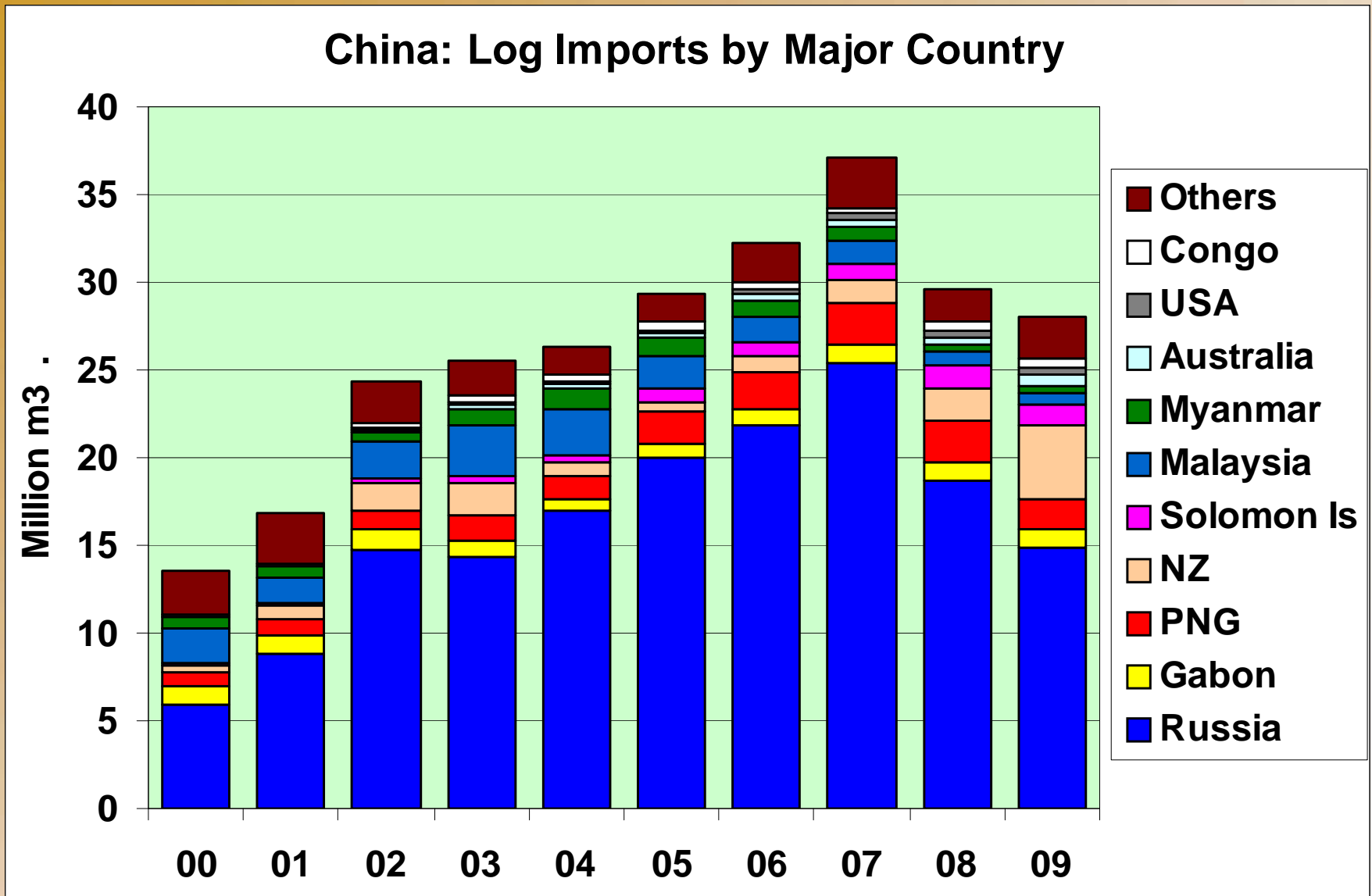
Note: all data in this presentation are extracts from WOOD MARKETS' two publications: *The China Book: Outlook to 2015*; and the monthly *China Bulletin*.

China: Trends & Issues

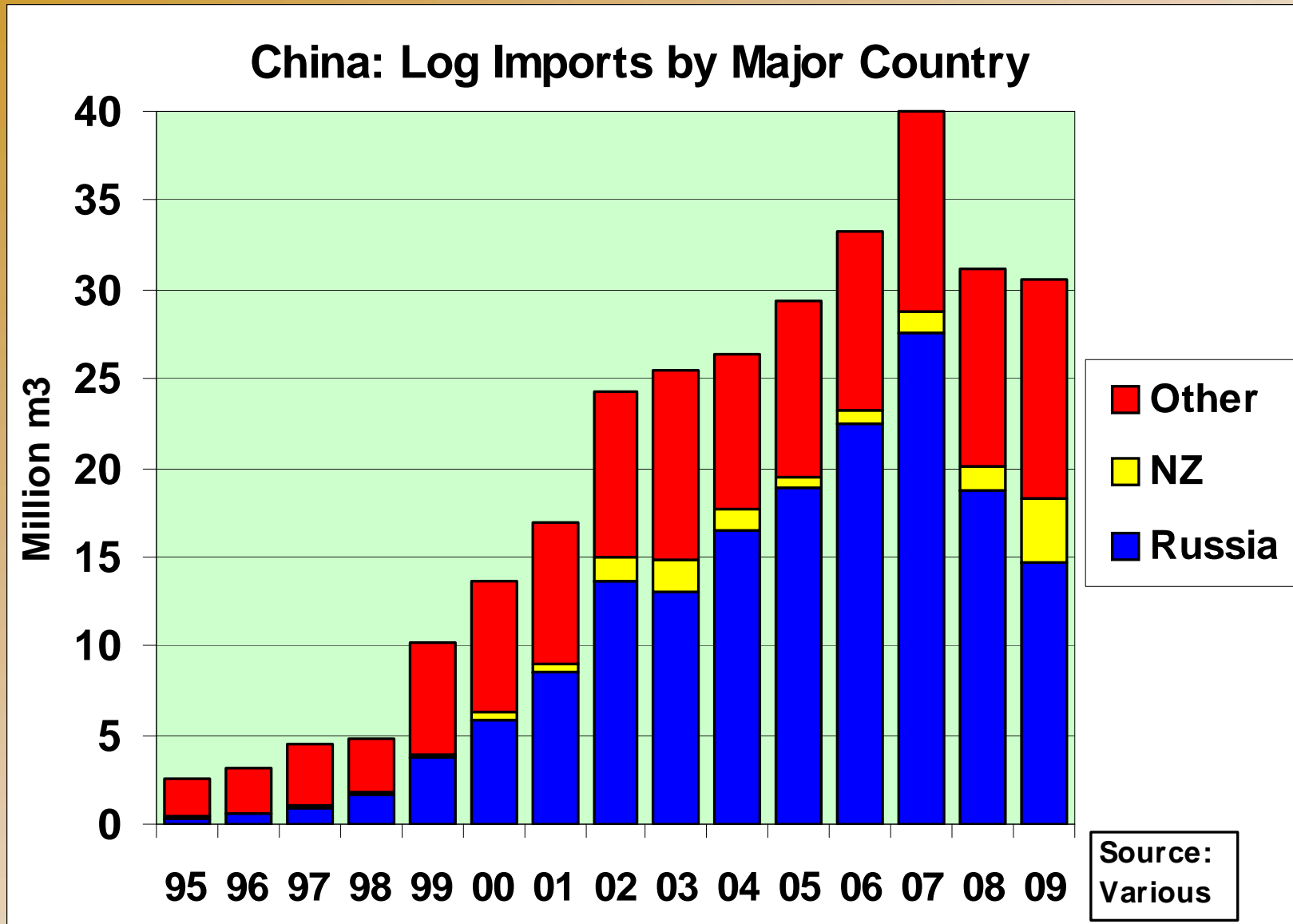
1. Economic Growth & Wood Products Demand:

- Strong economic growth in China = has rebounded quickly and strongly since early 2009 and is expected to continue.
- 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's log and lumber imports started to increase favourably in Q2-2009.
- Trends in China's imports follow.

Russia = China's Largest Log Supplier

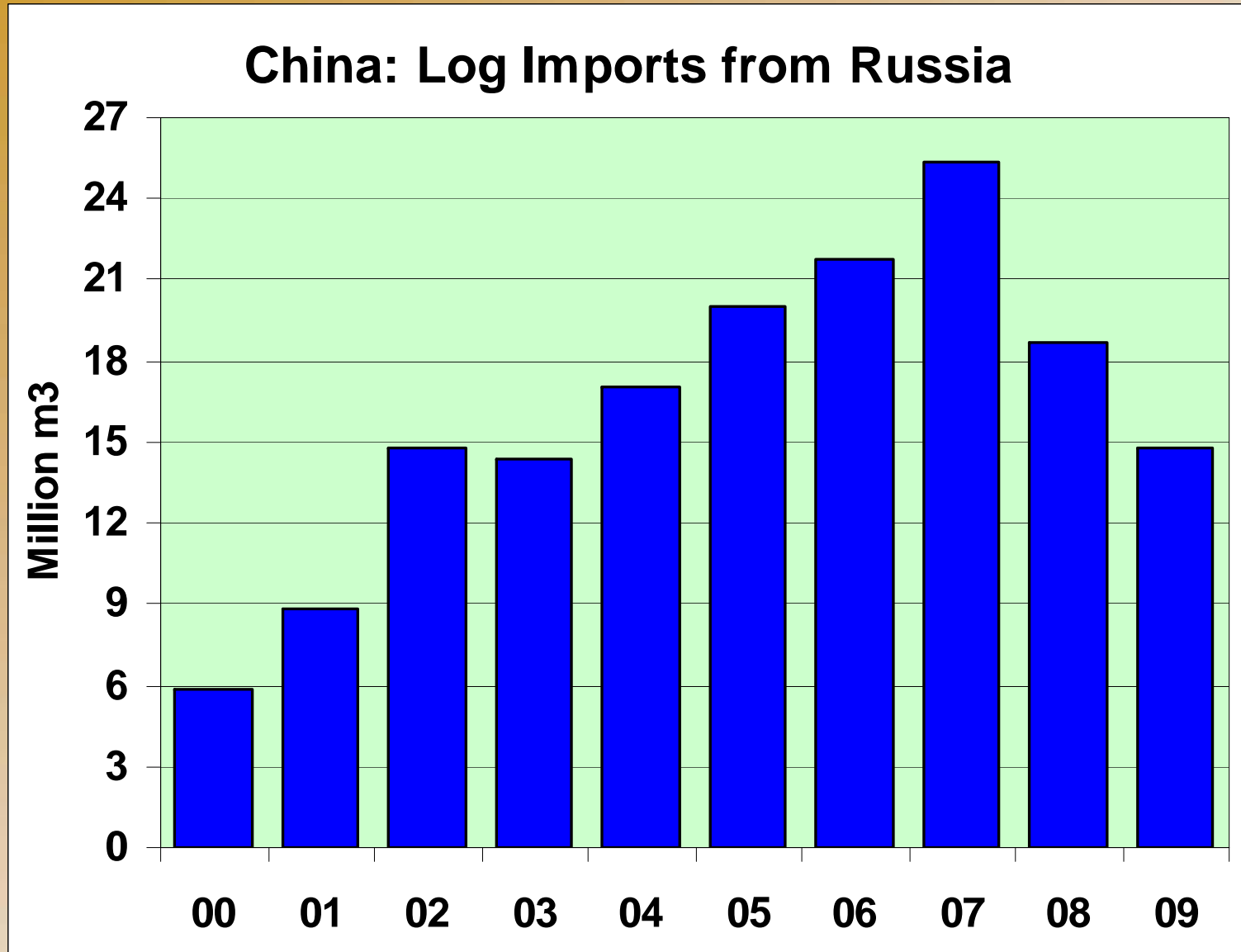


China's Log Imports



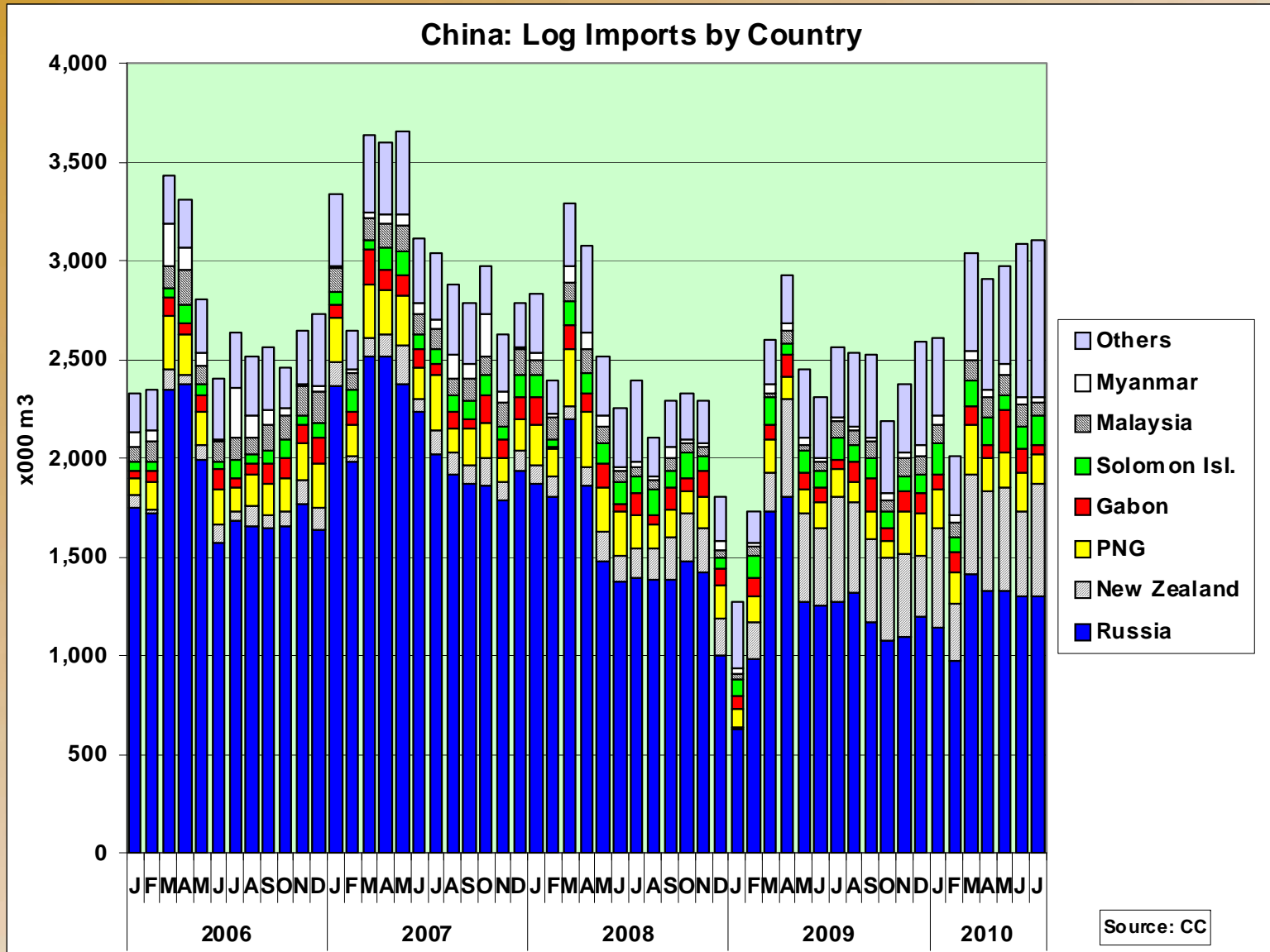
NZ is now the second largest supplier to China

Russia's Log Exports to China = Down



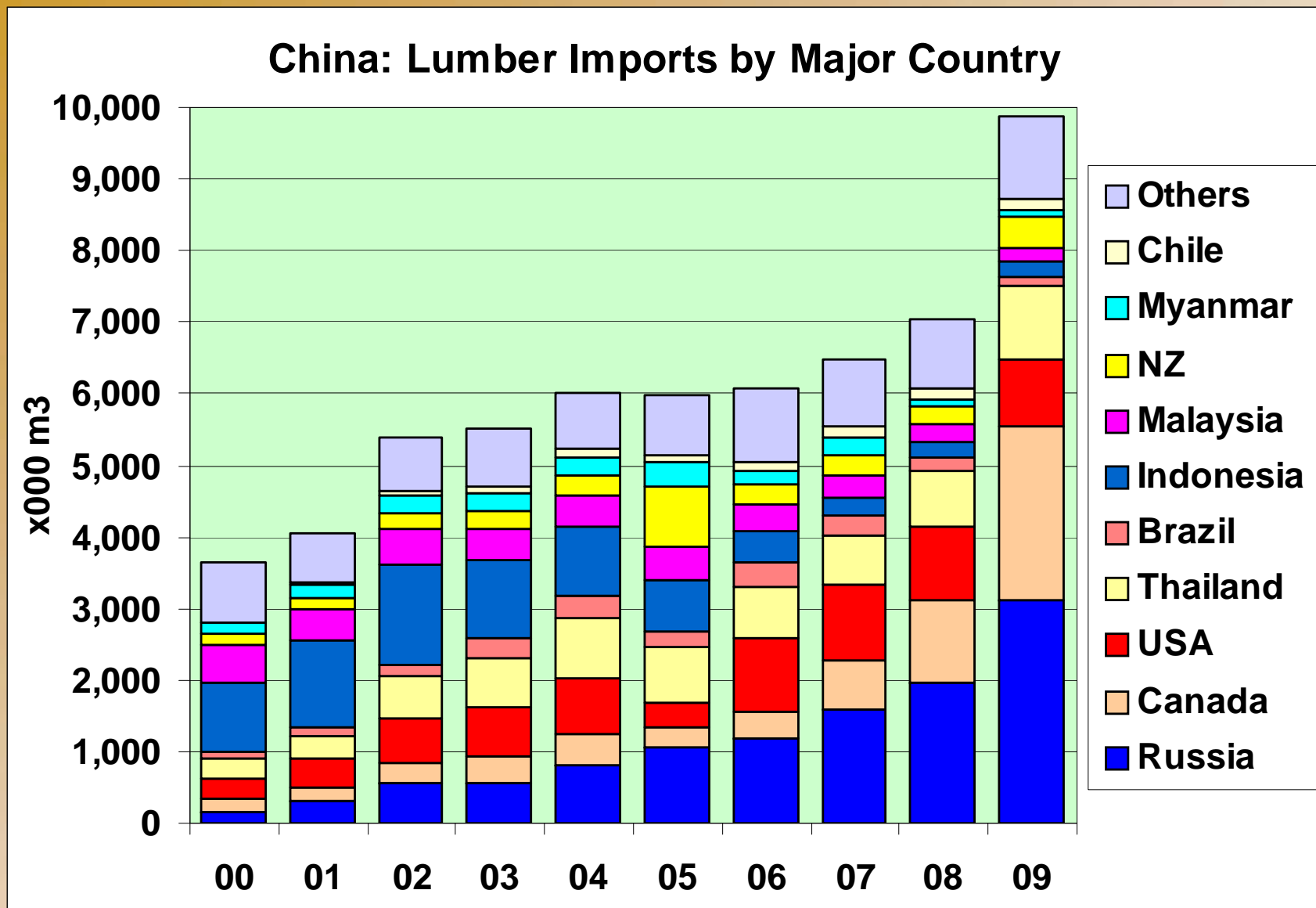
Total 2009 log imports ~ 1/2 from Russia

Russia = China's Largest Log Supplier



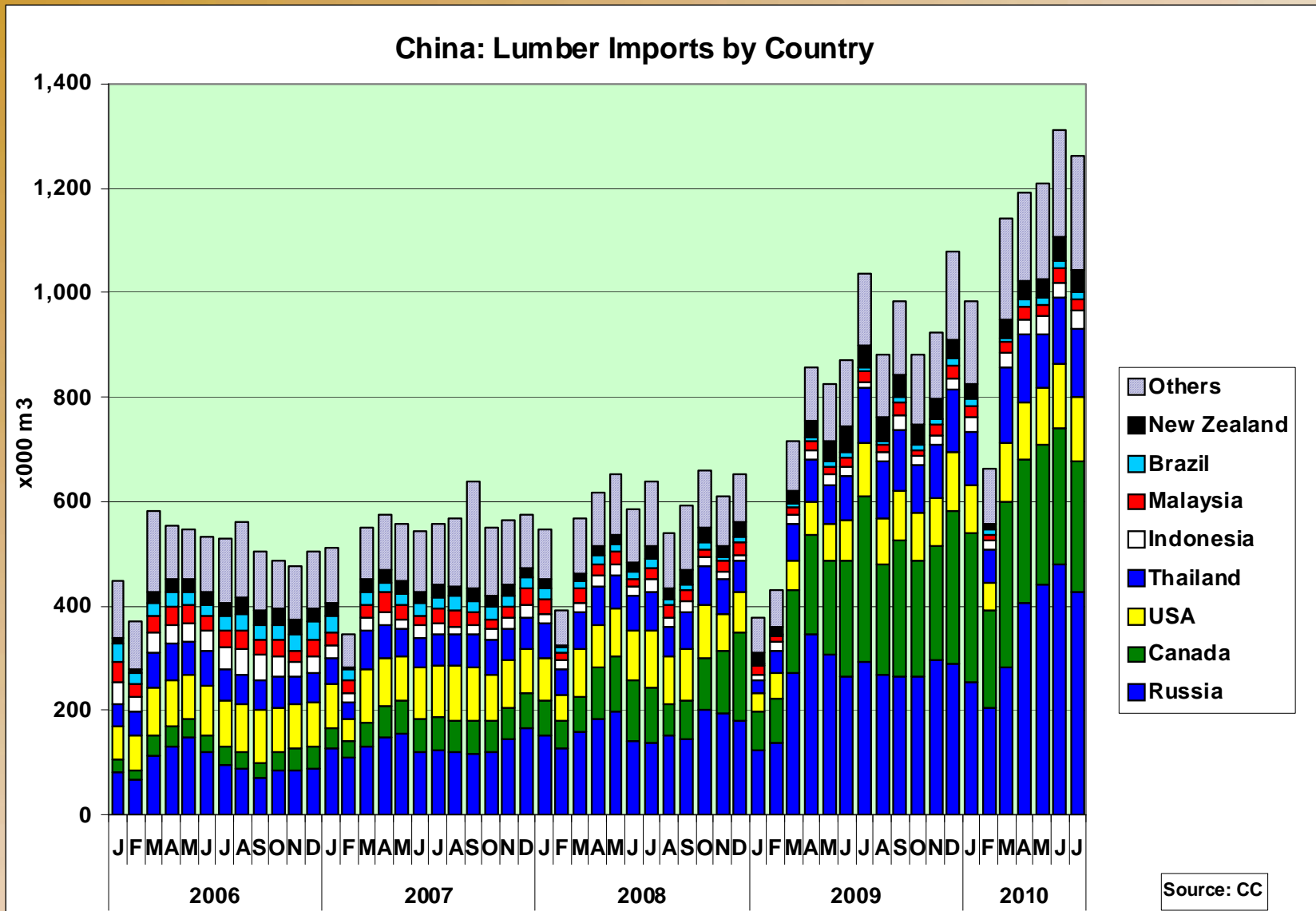
Russia imports stabilizing while total imports grow in 2010

China Lumber Imports Still Growing



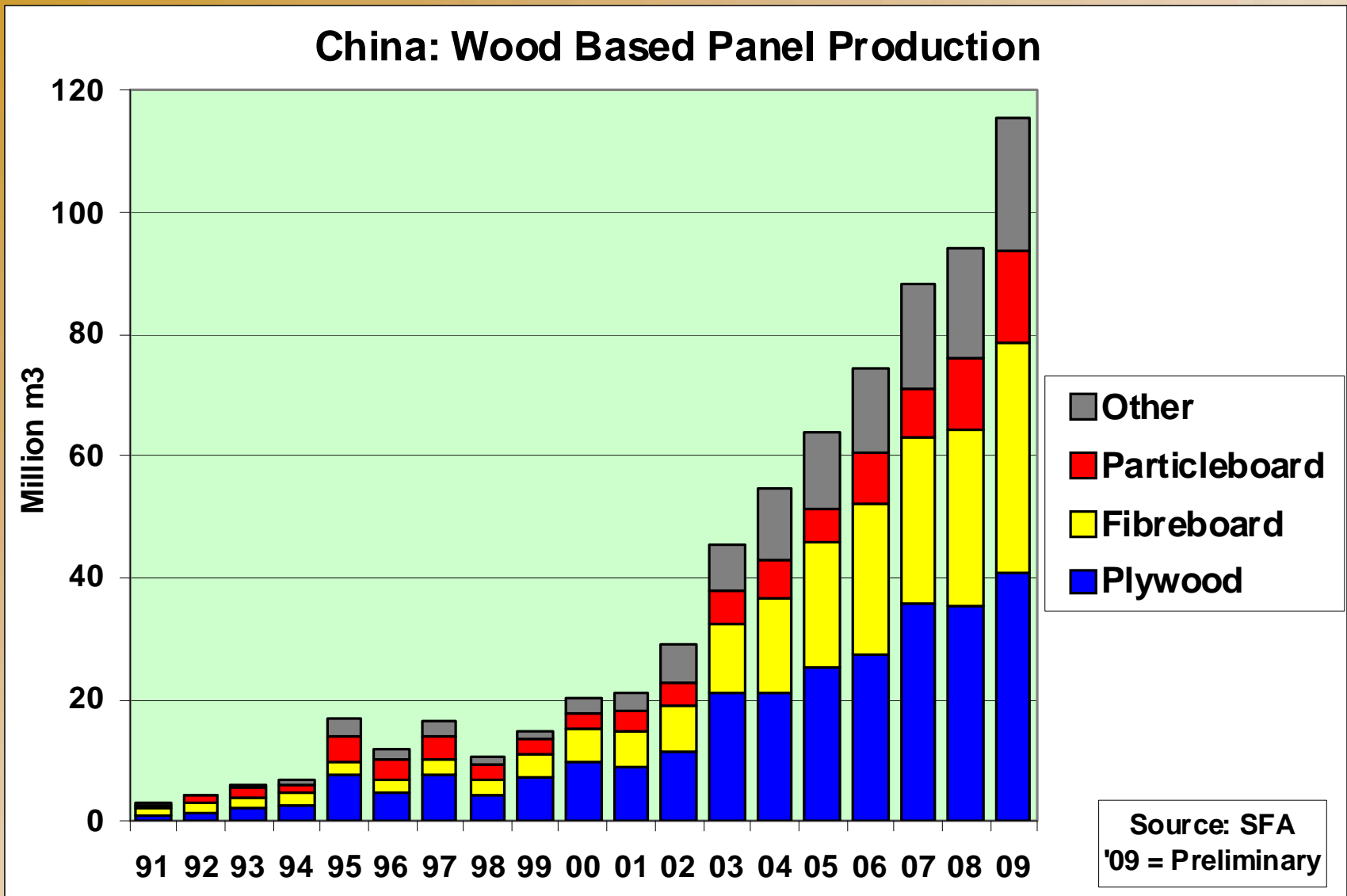
Russia, Canada and US are the largest lumber suppliers

China's Lumber Imports = Soaring



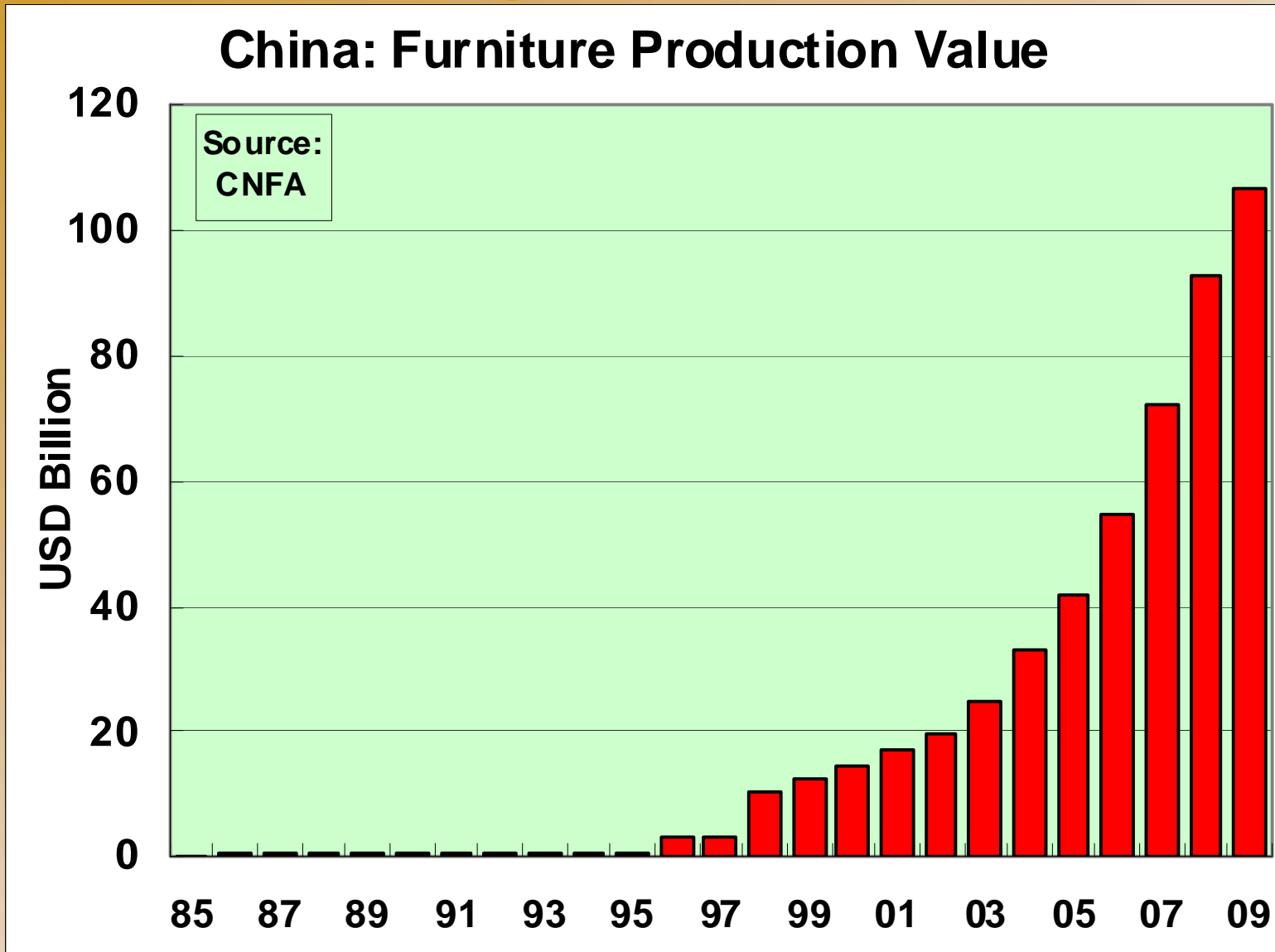
Canadian softwood lumber has overtaken Russia

China Huge Growth in Panels



China = #1 Plywood and MDF producer

China's Huge Furniture Growth



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

China: Trends & Issues

2. 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 gap (a gap of some 10 million m³).

China: Trends & Issues

3. Filling the Chinese wood (raw material) gap in 2010 has mainly come from:

- Increased log imports from New Zealand.**
- Increased log imports from North America.**
- Increased lumber imports from North America (mainly B.C.).**
- Increased lumber imports from Russia.**
- Increased lumber imports from USA, NZ, Australia, etc.**

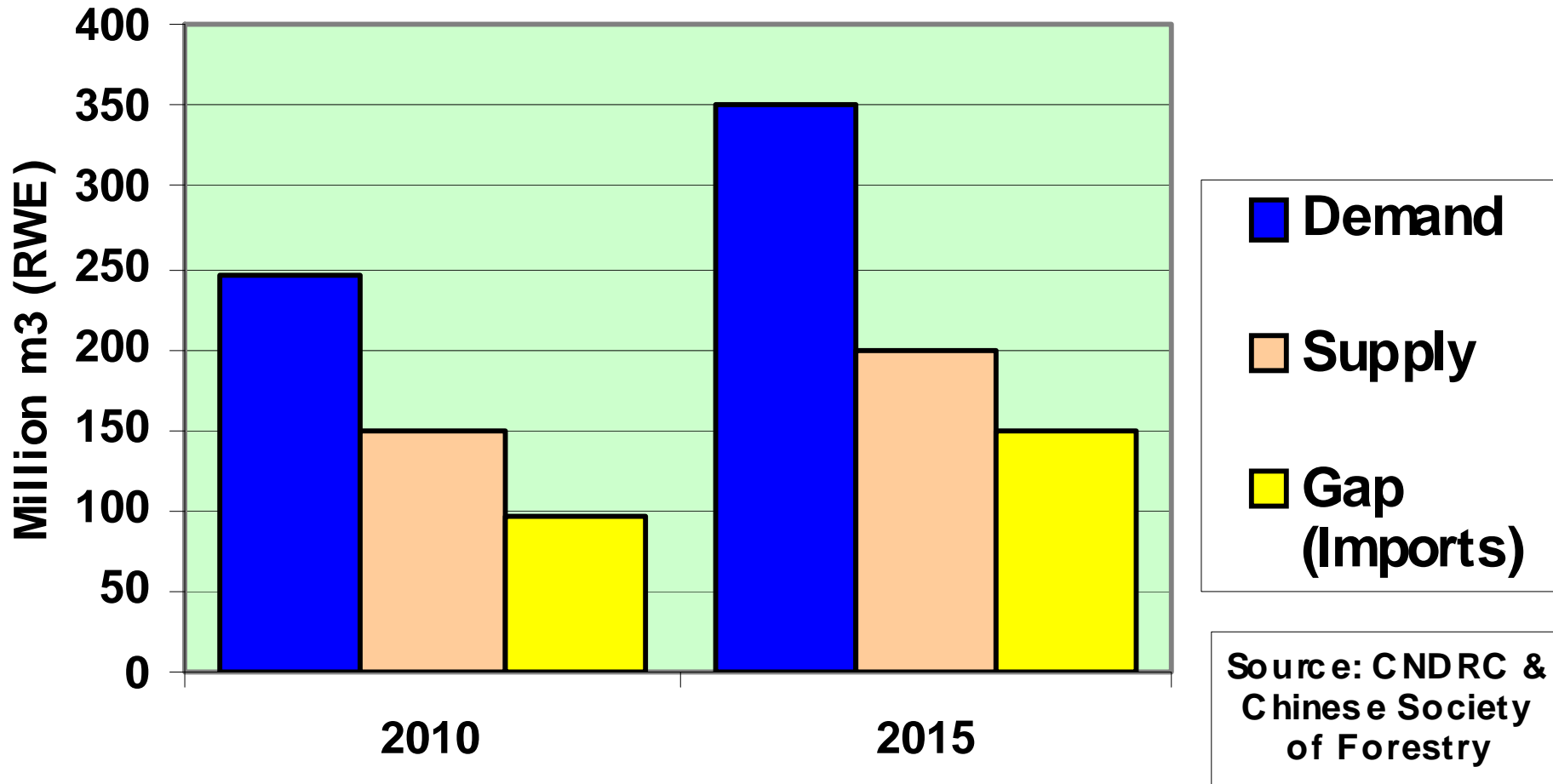
China: Trends & Issues

4. China's total "wood" demand:

- Is expected to grow from 250 million m³ in 2010 to 350 million m³ by 2015 (a conservative 8% per year).
- The projected wood deficit (or the role of imports) is expected to grow from 100 million m³ to 150 million m³ – 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 m³ (RWE) of imports come from over the next 5 years??

China's Fibre Deficit = Huge!

China Fibre Deficit

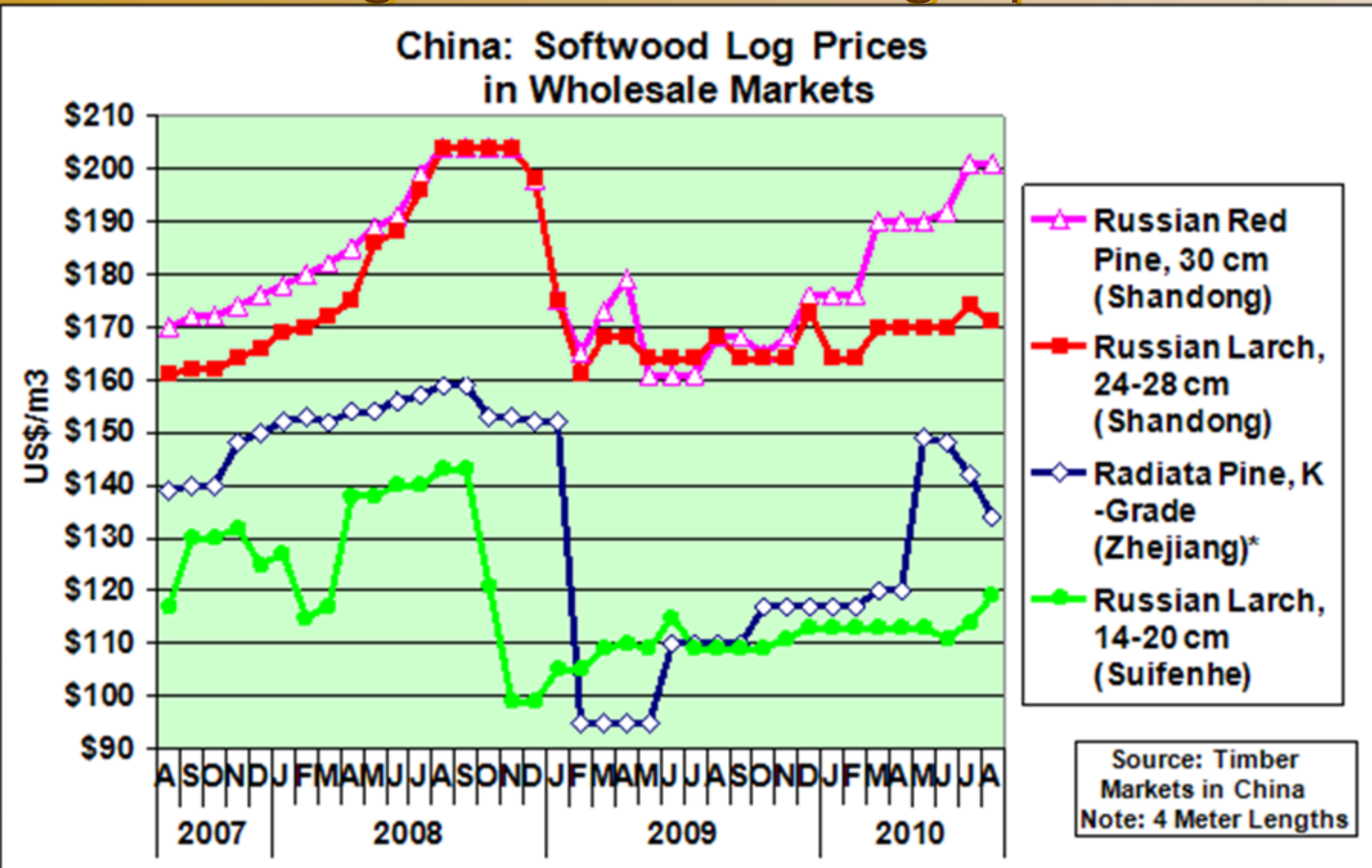


China's demand is growing at 8-10% per year = requires huge raw material supplies to be sustained!

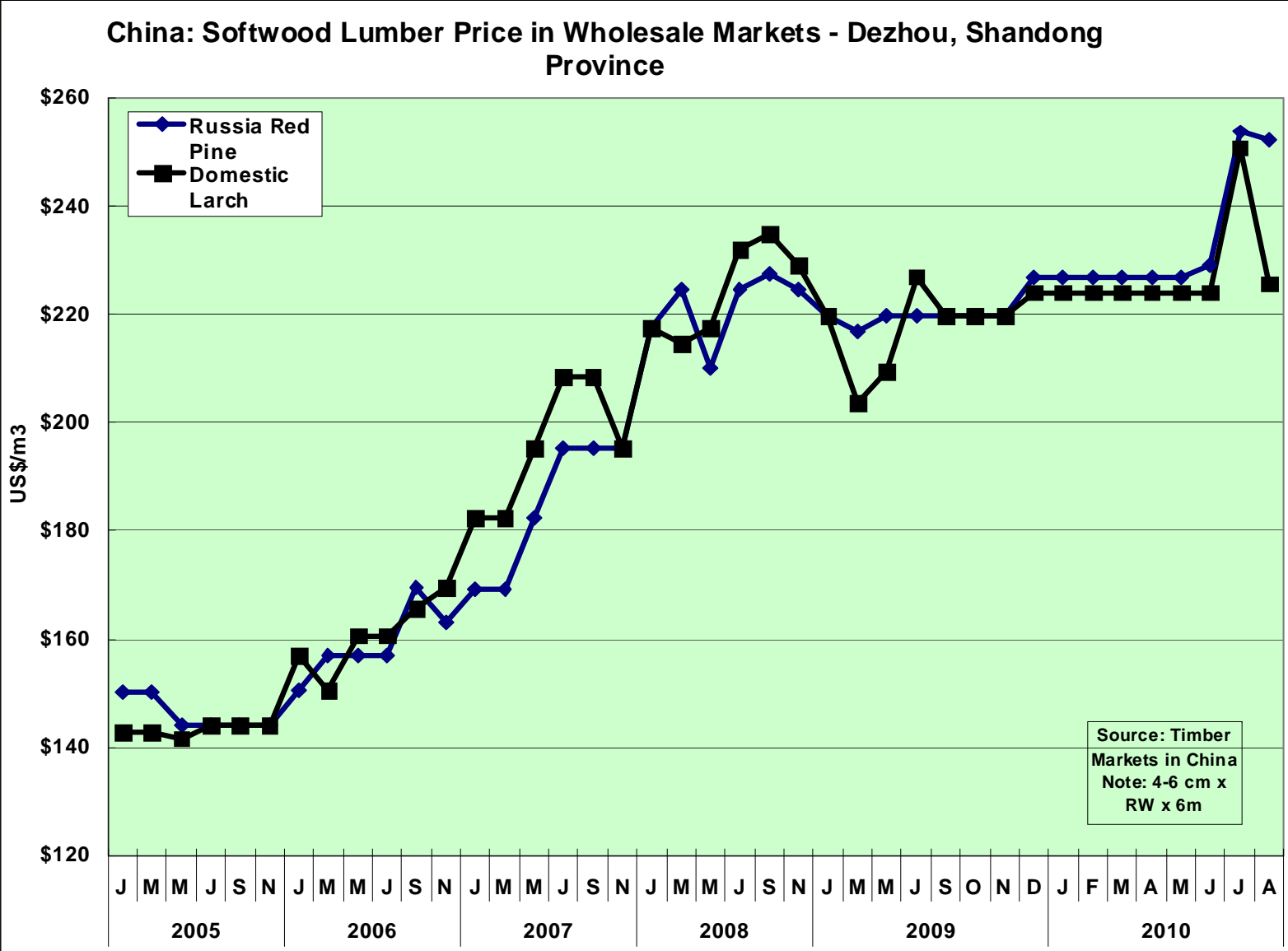
New Zealand's Fit in China

- New Zealand radiata log (and lumber) exporters must remain price competitive with the Chinese market.
- NZ has formidable competition from:
 - Russian logs & lumber
 - U.S. and Canadian (B.C.) logs & lumber
 - Other softwood sources
 - A variety of tropical & temperate hardwood logs & lumber
 - Domestic Chinese logs & lumber
- How clear are NZ exporters on the competition relative to where NZ fits in China?

China Log Prices: Moving up in 2010



Domestic & Imported Lumber Prices Up



The timber supply gap is increasing lumber prices (in US\$)



New Zealand's Fit in China

- New Zealand radiata pine logs have a clear position in the Chinese market in terms of its price discount to other higher quality species:

Chinese Market: Relative Price Spreads (Sept 2010) US\$/m³ - CIF China

Logs 20-30 cm	Species	Range	Spread
Russia	Larch, Pine, Spruce	\$155-\$165	
US PNW & BC	DF, Hemlock	\$140-\$145	\$15-20
New Zealand	Radiata Pine	\$125-\$130	\$15

Lumber	Species	Range	Spread
Russia	Sawfalling Green	\$220-\$225	
BC	SPF #3 KD S4S	\$180	\$40-\$45

Note: varies by species and grade

New Zealand's Fit in China

- **New Zealand radiata pine logs have a clear position in the Chinese market in terms of their relative price discount to other species:**
 - **To North American Douglas-fir and Hemlock, there is a US\$10-15/m³ discount for radiata.**
 - **To Russian logs, there is a \$30-35/m³ discount.**
- **The reality is that China buys low priced logs & lumber as most imported lumber is used for industrial applications (concrete forming, crating, pallets, feed stock, etc.) and not for wood frame house construction.**
- **While price is most important consideration, higher quality Russian logs set the market price.**

New Zealand's Fit in China

- Higher quality Russian and North American logs are used for interior finishings (doors, windows, mouldings, furniture, etc.) and will always be worth more than New Zealand radiata pine logs.
- As a result, it is important for NZ log prices to remain in line with these other species or market consequences will occur.
- A good strategy for NZ radiata pine log sellers is not to chase prices, but to look to remain positioned in the market against those higher quality species that will always set the market prices in China.



THE CHINA BOOK: Wood Products Industry and Market Review

Assessment of China's Raw Material
Requirements, Production Scale
and Fit in Export Markets



AVAILABLE MARCH 2010

PREPARED AND PUBLISHED BY
International WOOD MARKETS Research Inc.



WOOD MARKETS' China Bulletin

Monthly Since 2007

Featuring:

Industry Trends &
Analysis, Statistics

+

Import/Domestic Log,
Lumber & Panel
Prices

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!!**

Russian Log Export Tax - Implications

There will be major winners and losers in terms of importers, exporters, producers and countries

- It is likely that US, Canadian & So. Hemisphere (NZ!) 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 to us at this point that big supply changes & tight fibre supplies are going to occur and drive global trade flows in 2011 and beyond.
- China offers opportunities for NZ exporters!

Thank You!

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