



China looking for more Canadian wood—a lot more

A new report from International WOOD MARKETS Group Inc. has some very good news for log and lumber exporters to the fast-growing China market. The upshot of the report is that China is going to be looking for more wood—a lot more wood.

By Russ Taylor

International WOOD MARKETS Group has released its new 300-page report, *The China Book — Outlook to 2015*, that features some incredibly good news for log and lumber exporters to China.

China will be under increasing pressure to source raw materials if it wants to achieve sustained growth in its wood products industry. This excerpt highlights some of the potential challenges and raw materials shortages facing the country over the next few years.

Timber Supply

The driver behind a rapidly expanding industrial timber harvest in China is, without question, the successful development of new plantation resources countrywide. It's reported by Chinese government officials that the harvest from plantation resources—very small just ten years ago—now accounts for 65 to 70 per cent of China's total domestic industrial timber harvest. However, there will still be a huge supply gap between China's forest resources and its industry demand: the projected fibre supply gap will reach some 100 million cubic metres in 2010 on a roundwood equivalent (RWE) basis and could be 150 million cubic metres (an equivalent log volume greater than the entire Canadian timber harvest in 2008 and 2009) by 2015 —an indication that Chinese imports related to required “fibre inputs” (logs and lumber) will continue to rise in the short- to medium-term.

Log Imports

Due to the global recession that began in the second half of 2008, China's total log imports declined in 2009 to 28.1 million cubic metres—a staggering 24 per cent drop from 2007's peak. Chinese log imports in 2010 are projected at about 31 million cubic metres—still some six million cubic metres below the peak level of 2007.

The current 25 per cent Russian softwood log export tax (minimum 15/cubic metre) is the main reason for the huge plunge in Russian log exports to China, as their delivered cost advantage over other global suppliers has been eroded substantially.

The problem for China is that there are no other large log exporters in the world that can come anywhere close to providing even part of the log supply that has been lost from Russia. Chinese imports of logs from New Zealand (now the second largest supplier to China at 4.4 million cubic metres in 2009 with a 16 per cent import share) and other countries have risen substantially, but the relative volumes are small. For example, Canada's share of Chinese log imports (almost all from B.C.) was just over one per cent (400,000 cubic metres) in 2009.



As Chinese demand for log and lumber imports rises during the next five years, it is likely Russian log imports will increase very little (if at all) given the current 25 per cent export tax, which has created higher costs and has scaled-down Russian logging infrastructure. If Russia raises the log export tax to 80 per cent, it is predicted that Russian log exports to China will almost cease. At an 80 per cent tax, there could be global chaos in log and lumber exports, as China would need to step up imports from all available sources and in many cases would be required to push up prices to secure volume.

It appears that China will need to scramble to combine its domestic timber harvest with available log and lumber imports to have any chance to grow its wood products industry at the same pace as its overall economy.

Lumber Imports

Softwood lumber exports from Russia have expanded, as have imports from Canada, the U.S., New Zealand and other regions. China's growing demand for fibre is unlikely to be met by domestic and imported logs alone, and has therefore created a huge opportunity for lumber imports.

Steadily declining softwood lumber prices in the U.S. market since 2006 were offset by rising prices in China. As U.S. market prices continued to plunge, almost every export market in the world was looking attractive from a B.C. perspective, given that the U.S. was offering some of the lowest global lumber prices by 2008, not to mention the lowest prices in 20 to 25 years. It became economical to consider selling more and more low-grade lumber to China as the Cost and Freight price became more attractive relative to U.S. market price returns—and the U.S. market couldn't take the volume anyways.

As a result, China has suddenly become a significant market with substantial volumes and a reasonable price fit for B.C. lumber and, to a much lesser extent, the U.S. Pacific Northwest.

Russia and Canada are the two main lumber-supplying countries to China, accounting for almost 56 per cent of China's total lumber imports in 2009. During the last three years, Canadian (almost all from B.C.) lumber exports to China have been increasing at a faster rate than Russian lumber exports mainly due to the weak market returns in the U.S. market and from the high volumes of mountain pine beetle-killed logs that yield more low-grade lumber.

Outlook

China must continue to search the world for relatively low-cost, consistent softwood lumber suppliers; the two largest fits will continue to be Russia and B.C., with the U.S., New Zealand and other smaller exporting countries providing the balance.

Chinese lumber imports are projected to double over the next five years to 12 billion board feet or more simply to meet China's growing appetite for wood fibre. Since the bulk of low-grade lumber produced in B.C. is already going to China, most of the projected increase in B.C. lumber exports (from the 1.6 billion board feet in 2009) will be heavier to higher quality #2 Structural & Better grade lumber—this could have big implications for the U.S. market, not to mention the impact on U.S./Canada lumber prices!



Russ Taylor is President, International WOOD MARKETS Group Inc., Vancouver, B.C. www.woodmarkets.com

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