



CHINA MARKET PROFILE

CHINA: FOREST PROFILE¹

China has a great variety of forest types. In the northern cold temperate zone, the forest is composed of coniferous trees, followed by a mixed forest of deciduous and broad-leaved trees in the temperate zone. The warm temperate zone is dominated by a deciduous broad-leaved forest, evergreen broad-leaved forest in the subtropical zone and finally rain forest and monsoon in the tropical zone. Yunnan and Chinese red pine as well as oak, larch and Chinese fir are some of the most common trees to be found in China.

CHINA'S FOREST DISTRIBUTION

Forests are organized into three types. State Forests account for by far the greatest part, with 70 % of total timber reserves. There are also Collective Forest Farms and Co-operative and Industrial Forest Farms. A total of 131 forest bureaus have been created, and engage in activities relating to industry, especially logging. To ensure the availability of forest resources, 4,256 State Forest Farms and 110,000 Collective Farms have been established across the country.

	Forest Cover 2000	Distribution of land cover/use % (1996)		
	'000 ha	Forest	Other Wooded Land	Other land
China	163,480	17.5	3.7	79.6
Asia	547,791	17.8	4.6	78.3
World	3,869,453	29.4	11.2	58.6

China presently has around 14 percent forest cover, almost evenly divided between coniferous and broadleaved forests. The largest forests are in the northeast and inner Mongolian provinces; the ten southern provinces; and Sichuan and Yunnan provinces. Southern forests are mainly lowland rain forests and monsoon forests. In the north the majority of forests are mixed coniferous. The Chinese Government attaches great importance to forestry development. Afforestation and territory greening have been defined as a common duty of society. China has the world's most extensive plantation estate, in excess of 20M hectares.

POLICIES/ISSUES

Since 1978, China has been following an "Open Door" policy for its economic reforms, which has resulted in very rapid growth in the past few years.

The Fourth National Forest Inventory, completed in 1993, showed that the annual increment of forest area and standing volume were 1.65% and 70.2M m³, respectively, when compared to the results of the Third National Forest Inventory (1984-1988). China has followed a policy of afforestation of barren hillsides and poor agricultural land. Since 1978, the National People's Congress have issued a series of regulations and policies, clearly indicating that the government is laying a foundation for the sustainable development of forestry in China.

PRODUCTS AND TRADE

China is one of the worlds five largest wood producing countries, though a little less than two-thirds of its production is burned as fuel. China has, however, invested in a number of large processing facilities in the past decade, to supplement the previously small mills. Significant quantities of all wood products are produced. China imports significant quantities of all wood products, although its focus tends to be toward less-processed products such as logs and wood-pulp.

The main wood products produced in China are plywood, particleboard and medium density fiberboard (MDF). Of these, MDF is the most important, and production quality has recently been upgraded with the importation of production lines from Sweden. The government continues to invite foreign investment to upgrade this sector. Many of the new mills are locate in large cities in the east, such as Shanghai, Tianjin, Guangzhou and Beijing.

China must import to satisfy its huge and growing demand in wood products. Currently, China imports from Russia, the United States, and Indonesia among others. Preferred species are light colored woods, such as ash and maple, which are popular as interior woods.

¹ Source: World Forest Institute. <http://www.worldforestry.org/wfi/world-forests.htm>



CHINA TRADE OVERVIEW

China Export Stats
Commodity: Wood Products (44)
Value: \$1,000,000

Partner Country	2003	SHARE	1YR Δ	5YR Δ
World	3,072.3	100.0%	3.9%	31.4%
Russia	782.5	25.5%	-0.9%	198.3%
Hong Kong	549.8	17.9%	-15.2%	-39.0%
Indonesia	347.6	11.3%	5.6%	40.7%
Malaysia	257.1	8.4%	18.0%	-36.4%
United States	256.6	8.4%	14.6%	351.4%
Thailand	139.1	4.5%	50.0%	1388.8%
Germany	125.5	4.1%	-17.8%	-32.4%
Brazil	122.1	4.0%	56.1%	1208.6%
New Zealand	112.2	3.7%	6.5%	332.3%
Canada	57.9	1.9%	54.2%	749.6%

China Import Stats
Commodity: Wood Products (44)
Value: \$1,000,000

Partner Country	2003	SHARE	1YR Δ	5YR Δ
World	4,643.7	100.0%	12.2%	58.8%
Russia	1,054.5	22.7%	-0.4%	273.8%
Malaysia	640.9	13.8%	31.3%	-4.7%
Indonesia	518.9	11.2%	-4.9%	-5.9%
United States	298.1	6.4%	13.8%	107.0%
Gabon	212.6	4.6%	14.0%	16.3%
New Zealand	210.8	4.5%	21.5%	251.6%
Thailand	210.0	4.5%	16.9%	262.2%
Papua N. Guinea	156.4	3.4%	25.2%	146.8%
Germany	138.6	3.0%	-25.0%	-45.8%
Myanmar	117.6	2.5%	19.7%	140.3%

TOP IMPORTED PRODUCTS

CHINA IMPORT STATISTICS FROM THE WORLD			UNITS: \$1,000					
TYPE	HS	Description	2001	2002	2003	1YR Δ	5YR Δ	% Share
ALL	44+94	Wood + Furniture	3,495,419	4,178,002	4,704,296	12.6%	59.6%	100.0%
ALL	44	ALL WOOD PRODUCTS (EX-FURNITURE)	3,466,880	4,139,375	4,643,679	12.2%	58.8%	98.7%
TOTAL PRIMARY			3,431,487	4,098,312	4,589,511	12.0%	61.4%	97.6%
PRIMARY	4403	Logs	1,693,908	2,138,415	2,447,943	14.5%	96.0%	52.0%
PRIMARY	4407	Lumber	986,601	1,155,672	1,190,627	3.0%	80.6%	25.3%
PRIMARY	4412	Plywood & Panels	254,485	258,725	354,955	37.2%	-14.7%	7.5%
PRIMARY	4411	Fiberboard	279,111	302,584	320,841	6.0%	55.0%	6.8%
PRIMARY	4410	Particle Board	83,700	104,579	113,221	8.3%	123.6%	2.4%
PRIMARY	4408	Veneers Sheets	95,203	89,377	95,701	7.1%	-53.3%	2.0%
PRIMARY	4401	Fuel Wood & Wood Chips	4,938	7,569	33,649	344.6%	256.7%	0.7%
PRIMARY	4413	Densified Wood Shapes	9,372	9,761	15,182	55.5%	-49.7%	0.3%
PRIMARY	4406	RR Ties	1,782	8,365	8,345	-0.2%	154.5%	0.2%
PRIMARY	4404	Hoopwood, Poles, Pickets, Stakes	18,783	21,298	5,820	-72.7%	-55.3%	0.1%
PRIMARY	4402	Wood Charcoal	2,731	1,283	2,051	59.8%	246.0%	0.0%
PRIMARY	4405	Wood Wool or Flour	874	683	1,174	71.9%	56.0%	0.0%
TOTAL SECONDARY			63,932	79,690	114,785	44.0%	9.9%	2.4%
SECONDARY	94	ALL WOOD FURNITURE	28,539	38,626	60,617	56.9%	145.0%	1.3%
SECONDARY	4409	Wood, Continuously Shaped	9,236	16,056	21,355	33.0%	78.5%	0.5%
SECONDARY	4418	Builders' Carpentry	10,458	7,870	11,632	47.8%	-64.9%	0.2%
SECONDARY	4421	Articles Of Wood, Nesoi	7,112	6,357	8,613	35.5%	-67.1%	0.2%
SECONDARY	4419	Wood Tableware & Kitchenware	1,846	2,788	3,970	42.4%	250.0%	0.1%
SECONDARY	4415	Wood Packing Material	1,805	2,553	2,773	8.6%	-17.9%	0.1%
SECONDARY	4417	Tool & Broom Bodies	1,899	1,961	1,993	1.6%	64.3%	0.0%
SECONDARY	4420	Wood Marquetry Etc.	1,721	2,010	1,884	-6.3%	49.9%	0.0%
SECONDARY	4416	Cooperage Products	1,028	1,268	1,736	36.9%	209.9%	0.0%
SECONDARY	4414	Wood Frames Etc.	289	199	213	7.0%	-76.8%	0.0%



IMPORT OVERVIEW

China's flourishing economy, coupled with policy constraints limiting domestic forest production, has resulted in skyrocketing forest product imports over the last several years. In a decade, China moved from a ranking of seventh up to second among all nations in total value of forest product imports and also is now the top importing country worldwide of industrial logs.² China's forest products imports grew nearly 60% over 1999, by total value, with volume nearly doubling in the period. China imported around \$4.7Bn in forest products in 2003. Top suppliers to the Chinese market include Russia (22.7%), Malaysia (13.8%), Indonesia (11.2%), and up and comer the U.S. (6.4%). While Chinese imports have drastically increased, China appears to be diversifying its stocks of suppliers with only the U.S. and Russia attaining significant gains in the top 5. Russia-based imports grew by 273.8% over the period, and U.S.-based exports to China achieved a monstrous 323% increase from 1999-2003. Experts indicate the China will overtake Japan as the largest global importer of forestry products within the decade. By and large, the Chinese industrial economy is focusing on raw material imports to fuel its fabrication and re-exportation of higher value products. Primary products' share of Chinese imports was a stunning 97.6% of the entire market. Currently, based on forest products (44, ex-furniture) imports, China has a trade deficit, but exports have continued to rise on strong industrial production expansion. Forest products are a top commodity in the Chinese economic growth plans.

The main drivers of these general trends in forest product imports are China's strong economic growth, a low per capita endowment of wood, and policy constraints to domestic production from natural and plantation forests. To a lesser extent, recent reductions in forest product tariffs may play a role in increased imports, including, possibly, a shift from illegal to legal product, as smuggling becomes less attractive.³

PRIMARY PRODUCTS IMPORTS

LOGS

China is now the largest importer of logs in the world. As China's domestic log supply decreased, its construction, furniture, and pulp and paper industries turned to imports to meet demand. Beginning in 1999, China's imports increased rapidly as a result of reduced tariffs, a logging ban, and a growing furniture industry.

China's imports of softwood logs skyrocketed from \$94M in 1998 to \$942M in 2003, making it the second-largest softwood log importer. China is the top importer of hardwood logs, importing \$1.5Bn in 2003. In 2003, China imported over 25.4M m³ of logs. This represents a 151% increase over 1999 levels. Total value of Chinese log imports in 2003 came to \$2.4Bn, a slightly lower 96% growth rate due to lower cost logs from the Russian market which has been building capacity since the late 90's. Russia is the dominant supplier of logs to China with 56.4% of the total market, followed by Malaysia (11.5%), New Zealand (7.5%), and Papa New Guinea (5.4%). The U.S. maintains only .4% (volume) and 1.9% (value) in the Chinese market, dominated by regional preferences. Russian log exports to China have seen a drastic increase since 1999, with a growth rate of 233.7% over the period. New Zealand and Papa New Guinea have also seen record growth although a significantly lower volumes.

LUMBER

Lumber products have shown equally high growth rates over the period (102.4%), ending at 5.5M m³ in 2003. In value, Chinese imports reached \$1.2Bn in 2003 for an 80.6% increase over 1999. Supplying China's

CHINA IMPORTS: PRIMARY		UNITS: \$1,000		
PRODUCT	2003	% Share	1YR Δ	5YR Δ
TOTAL PRIMARY	4,589,511	97.6%	12.0%	61.4%
HW Logs	1,502,540	31.9%	31.7%	54.3%
HW Lumber	981,393	20.9%	-0.8%	64.1%
SW Logs	942,091	20.0%	-5.5%	247.0%
HW Plywood	211,850	4.5%	53.5%	50.0%
SW Lumber	209,235	4.4%	25.8%	240.6%
Other Panel Products	120,678	2.6%	-17.2%	-40.9%
HW Veneers	85,345	1.8%	15.4%	-57.3%
SW Plywood	74,560	1.6%	35.4%	-52.8%
MDF	68,564	1.5%	-19.6%	0.2%
Hardboard	62,167	1.3%	-19.4%	-12.4%
HW Chips	31,455	0.7%	431.4%	1695.7%
OSB-WB	15,337	0.3%	7.6%	168.5%
SW Veneers	10,357	0.2%	-32.8%	100.7%
RR Ties	8,345	0.2%	-0.2%	154.5%
Poles	3,312	0.1%	1986.8%	-6.0%
SW Chips	430	0.0%	57.5%	-44.4%

² Source: "FAOSTAT Agricultural Data," Food and Agriculture Organization of the United Nations (FAO), 2004

³ China and Forest Trade in the Asia-Pacific Region, Center for International Forestry Research



demand for lumber raw materials are Indonesia (19.7%), the U.S. (12.3%), Thailand (12.2%), and Russia (10.2%). Monstrous gains were made by Thai (683%) and Russian producers (583%), which both grew over 500% from 1999-2003. While U.S. export growth kept pace in terms of % with demand, significant market share was lost to the above-mentioned competitors. Canada (438%) and Brazil (879%) have also seen strong gains in the market since 1999, and it appears the trend will continue.

PANEL PRODUCTS: PLYWOOD, VENEERS, FIBERBOARD, AND PARTICLEBOARD

Value-added products such as Plywood have witnessed decreasing demand as China's ramped up production of raw materials into value-added products for export consumption has reduced China's reliance on foreign origin value-added products. Plywood imports witnessed a slight decline over the period (-23.5%) to end 2003 at 797,000 m³. This represented a total value of almost \$355M. The majority of supply for plywood came from lower-cost sources such as Indonesia (67%), Malaysia (17.2%), and South Korea (3.8%). Indonesia's exports to China dropped slight over the period (-9.2%), but Malaysia and South Korea experienced dramatic reductions of 58.0% each.

Veneer sheets also showed weakness with a loss of more than half the volume from 1999-2003 (-65.2%). Volume dropped from 481M kg to 167.5M kg over the period. In total value, veneers realized slightly lower losses (-53.3%), with a total value of \$95.0M in 2003; due in part, to a surge in higher priced U.S. exports to China. Top suppliers to the Chinese market in volume were Malaysia (47.7%), Indonesia (14.1%), and the U.S. (10.7%). As stated above, the U.S. was the #1 supplier to the Chinese market in terms of total value. Indonesia and the U.S. bucked the global trend with strong growth over the period of 112% and 54.7%, respectively. This represents a significant opportunity for U.S. manufacturers of veneer sheets.

Fiberboard imports continued to increase as growth in the construction sector fueled demand for the middle to high density structural board products. The volume of Fiberboard shipped into China from 1999-2003 increased by nearly 75%, to a total of 975M kg. Total value of fiberboard shipments was \$320M in 2003, an increase of roughly 55% over 1999 figures. However, based on official estimates, MDF and Hardboard imports leveled out, signaling a change in demand for Fiberboard products to lower density material. Top suppliers of fiberboard to the Chinese market were Malaysia (25.6%), Australia (13.9%), Thailand (13.2%), New Zealand (8.7%), and newcomer Argentina (7.4%). Argentine exports reached 72M kg from near zero volume in 1999. Top suppliers all realized above-average gains except Thailand (63.8%). The U.S. captured 1% of the market with 8.7M kg shipped; down substantially from 1999 levels (-75.7%).

Particleboard imports grew substantially over the period analyzed as the Chinese economy continued its juggernaut pace. Particleboard imports rose 151.7% over 5 years to end at 405.6M kg shipped. The total value of these products reached \$113.2M in 2003. Rapid growth came on the back of major gains from suppliers such as Belgium, Thailand, Argentina, and Romania. Belgium increased exports to China by nearly 800% over the period, lifting it to #2. The U.S., which held 8% of the market in 1999, has since fallen by over 50% and now occupies only 2.7% of the market, with 3M kg shipped.

SECONDARY PRODUCTS IMPORTS

CHINA IMPORTS: SECONDARY		UNITS: \$1,000		
PRODUCT	2003	% Share	1 YR	5 YR
TOTAL SECONDARY	114,785	2.4%	44.0%	9.9%
Prefabricated Buildings	86,008	1.8%	20.5%	125.1%
SW Flooring, Molding, Siding	12,970	0.3%	90.8%	1527.0%
HW Flooring, Molding, Siding	12,952	0.3%	13.9%	-65.4%
Household Furniture	12,511	0.3%	27.7%	59.2%
Wood Framed Seats	9,000	0.2%	17.9%	83.4%
Pencil Slats	8,454	0.2%	36.3%	-67.3%
Builders Carpentry	7,065	0.2%	22.7%	2.7%
Packing Material	2,773	0.1%	8.6%	-17.9%
Office Furniture	2,008	0.0%	5.3%	-30.9%
Cooperage Products	1,736	0.0%	36.9%	209.9%

Chinese imports of secondary products reached only \$114M in 2003, emphasizing the significant demand for imported raw materials from abroad. As stated earlier, secondary products imports accounted for only 2.4% of total Chinese demand. However, top products within the category were Prefabricated Buildings (all materials), Softwood and Hardwood FMS, and Household furniture. However, the Prefabricated Buildings information is misleading as PB's of wood is not separated out from all other materials. Demand for SW FMS prompted strong

import growth for that category as the 5-yr return reached 1527.0%. The adjoining table outlines the major product categories and their historical growth patterns.



U.S. EXPORTS OVERVIEW

The Chinese market represents the greatest opportunity for U.S. export growth in significant volumes. In 1999, the U.S. exported roughly \$62M in primary and secondary products to China. By 2003, that number has increased almost five fold to total \$263M. This change represents an increase since 1999 of over 323%. China is by far the fastest growing large U.S. market for almost every major product category. In fact, China is the only U.S. market to experience significant growth out of the top 20 global markets for forestry products. These top 20 markets account for nearly 90% of all forest products exports from the U.S. While China only accounts for 4.4% of the entire export market, demand for U.S. primary products and raw materials is not forecast to decline over the coming years, as China's industrial machine continues its rapid pace of expansion. Primary exports accounted for nearly 90% of total export demand, with secondary products taking the remaining 10%. Competitor's such as Thailand, New Zealand, and Russia have also followed suite with record growth in exports to the Chinese market; with Russia being the largest trading partner for China. Overall, Lumber and Log demand fueled the majority of demand for U.S. exports, but strong growth was recorded for almost every major product category.

US EXPORT STATS:		CHINA	UNITS: \$1,000					
TYPE	HS	DESCRIPTION	2001	2002	2003	1YR Δ	5YR Δ	SHARE
TOTAL	44+94	Total Wood Products + Furniture	144,744	229,341	263,149	14.7%	323.0%	100.0%
TOTAL	44	Total Wood Products	140,223	223,982	256,637	14.6%	351.4%	97.5%
TOTAL PRIMARY		Total Primary	135,471	212,657	236,076	11.0%	369.8%	89.7%
PRIMARY	4407	Lumber	73,653	105,377	129,226	22.6%	315.4%	49.1%
PRIMARY	4403	Logs	43,090	63,162	62,339	-1.3%	612.7%	23.7%
PRIMARY	4408	Veneer Sheets	13,981	35,305	33,301	-5.7%	380.2%	12.7%
PRIMARY	4411	Fiberboard	1,899	3,585	3,361	-6.3%	150.3%	1.3%
PRIMARY	4401	Fuel Wood & Wood Chips	270	1,636	2,876	75.8%	1457.5%	1.1%
PRIMARY	4410	Particleboard	1,426	3,145	2,229	-29.1%	113.8%	0.8%
PRIMARY	4412	Plywood & Panels	879	425	2,081	389.2%	266.6%	0.8%
PRIMARY	4413	Densified Wood Shapes	90	13	447	3208.3%	148.8%	0.2%
PRIMARY	4404	Hoopwood, Poles, Pickets, Stakes	164	-	206	#DIV/0!	118.5%	0.1%
PRIMARY	4405	Wood Wool	17	8	10	14.9%	-77.6%	0.0%
PRIMARY	4402	Wood Charcoal	3	-	-	#DIV/0!	#DIV/0!	0.0%
PRIMARY	4406	RR Ties	-	-	-	#DIV/0!	#DIV/0!	0.0%
TOTAL SECONDARY		Total Secondary	9,273	16,684	27,073	62.3%	126.4%	10.3%
SECONDARY	4409	Wood, Continuously Shaped	106	3,891	10,538	170.8%	4767.1%	4.0%
SECONDARY	94	All Wood Furniture	4,521	5,359	6,512	21.5%	21.7%	2.5%
SECONDARY	4418	Builders' Carpentry	1,809	2,089	4,198	101.0%	84.8%	1.6%
SECONDARY	4421	Articles Of Wood, Nesoi	1,512	2,463	2,259	-8.3%	-18.5%	0.9%
SECONDARY	4417	Tool & Broom Bodies	401	1,902	1,712	-10.0%	2454.7%	0.7%
SECONDARY	4416	Cooperage Products	397	613	879	43.4%	297.7%	0.3%
SECONDARY	4414	Wood Frames Etc.	-	21	419	1862.1%	-45.2%	0.2%
SECONDARY	4420	Wood Marquetry Etc.	268	108	215	98.9%	102.6%	0.1%
SECONDARY	4419	Wood Tableware & Kitchenware	101	43	171	296.1%	200.7%	0.1%
SECONDARY	4415	Wood Packing Material	159	196	171	-12.6%	26.8%	0.1%



U.S. EXPORTS- PRIMARY

U.S. PRIMARY EXPORTS:	CHINA	FACTOR:	VALUE (\$000)	MARKET
PRODUCT	2003	5YR Δ	1YR Δ	SHARE
HW VENEERS	\$24,527	347.0%	-21.5%	9.3%
HW LUMBER, WESTERN RED ALDER	\$21,465	147.4%	-5.3%	8.2%
HW LUMBER, RED OAK	\$17,993	125.9%	15.9%	6.8%
HW LUMBER, OTHER TEMPERATE	\$17,798	623.5%	50.1%	6.8%
HW LUMBER, YELLOW POPLAR	\$12,116	1086.7%	52.7%	4.6%
HW LUMBER, MAPLE	\$11,908	216.6%	89.0%	4.5%
HW LOGS, WALNUT	\$11,656	4525.4%	15.3%	4.4%
SW LUMBER, OTHER CEDAR	\$11,013	3684.5%	-11.1%	4.2%
HW LOGS, YELLOW POPLAR	\$9,132	82918.2%	87.3%	3.5%

In essence, primary products exports are the only forestry products exports. With 89.7% of the total value of forestry exports coming from primary products, the nature of the China-U.S. relationship is made apparent. The U.S. exported nearly \$236M in primary products in 2003, representing a 5-yr overall growth rate of 369.8%. The U.S. has enjoyed record export growth in every major primary category with the following groupings dominating export sales. The major categories were: Lumber (49.1%), Logs (23.7%), and Veneer Sheets (12.7%).

Temperate HW Lumber species dominated the export market with 83.6% of all Lumber exports. SW Lumber accounted for 15.5% of the market. In the Logs category, HWs once again dominated with 82% of the market. The primary products export market for the U.S. is well diversified in that there is no one product that dominates U.S. market share in China. In fact, China is not the #1 market for any U.S. primary or secondary forest products, but the U.S. has experienced record growth in almost every category as evidenced by the charts below. Specific products that represent the bulk of U.S. exports are the following, labeled with their market share for China: HW Veneers (9.3%), Western Red Alder Lumber (8.2%), Red Oak Lumber (6.8%), and Other Temperate Lumber (6.8%). Primary exports are dominated by sales of HW Lumber and HW Logs.

Top performing primary products in the Chinese market shows increasing interest in Softwood raw materials such as lumber and logs. However, Medium Density Fiberboard has been making strong gains over a 5-yr period. SW Lumber imports showed the strongest growth, increasing 1500% to \$20M in 2003. Despite falling sharply from 2002-2003, Southern Yellow Pine dominated softwood export growth with sales increasing 30-fold from 1999-2003. This is attributed to virtually non-existent export sales recorded in 1998, 1999, and 2000. [China is the 7th largest market for Southern Yellow Pine exports.](#) Other sizeable gains were made by Yellow Poplar Logs & Lumber (16,583% and 217%), Walnut Logs (905.1%), Other Cedar (736.9%), and Western Red Cedar Lumber (730%). Medium Density Fiberboard (353.3%) experienced significant growth and was the only panel category in the top ten, although the volume remains relatively small. The chart at right indicates leading growth products in the Chinese market.

U.S. EXPORTS BY GROWTH: CHINA PRIMARY			
VALUES IN \$1000			
PRODUCT	2003	5YR Δ	1YR Δ
HW LOGS, YELLOW POPLAR	\$9,132	82918.2%	87.3%
SW LUMBER, S. YELLOW PINE	\$2,154	16469.2%	-57.4%
HW LOGS, WALNUT	\$11,656	4525.4%	15.3%
SW LUMBER, OTHER CEDAR	\$11,013	3684.5%	-11.1%
SW LUMBER, WESTERN RED CEDAR	\$150	3650.0%	172.7%
SW LUMBER, DOUGLAS-FIR	\$183	3560.0%	
HW LOGS, BIRCH	\$280	2233.3%	-22.0%
MEDIUM DENSITY FIBERBOARD	\$1,176	1766.7%	7.0%
HW LUMBER, WALNUT	\$4,582	1145.1%	-2.5%
HW LUMBER, YELLOW POPLAR	\$12,116	1086.7%	52.7%
HW LOGS, OTHER TEMPERATE	\$3,157	807.2%	28.9%
HW LOGS, CHERRY	\$5,451	730.9%	-9.0%
HW LUMBER, OTHER TEMPERATE	\$17,798	623.5%	50.1%
HW LUMBER, CHERRY	\$6,877	610.4%	120.1%
PULPWOOD	\$6,685	593.5%	-26.4%
SW VENEERS	\$8,841	510.6%	117.8%
HW PLYWOOD	\$1,088	488.1%	449.5%
HW LOGS, ASH	\$1,517	488.0%	46.0%
HW LUMBER, ASH	\$7,646	452.5%	63.3%
SW LOGS, OTHER CONIFEROUS	\$3,234	438.1%	355.5%
SW LUMBER, PONDEROSA PINE	\$2,645	391.6%	164.5%
HW LOGS, RED OAK	\$9,108	386.8%	-10.6%
HW VENEERS	\$24,527	347.0%	-21.5%
HW LOGS, WHITE OAK	\$2,640	342.2%	13.2%
HW LUMBER, TROPICAL	\$1,067	339.1%	104.0%



U.S. EXPORTS- SECONDARY

U.S. SECONDARY EXPORTS:	CHINA	FACTOR:	VALUE (\$000)	MARKET
PRODUCT	2003	5YR Δ	1YR Δ	SHARE
WOOD HOUSEHOLD FURNITURE	4,637	58.5%	77.9%	1.8%
OTHER BUILDERS CARPENTRY	1,467	-14.7%	35.7%	0.6%
HW FLOORING	1,397	10646.2%	30.8%	0.5%
WOOD OR WOOD FRAME SEATS	998	9.1%	-1.3%	0.4%
COOPERAGE PRODUCTS	879	297.7%	43.4%	0.3%
WOOD DOORS AND FRAMES	662	241.2%	-12.3%	0.3%
WOOD FURNITURE PARTS	591	236.5%	23.1%	0.2%
WOOD WINDOWS AND FRAMES	558	58.5%	475.3%	0.2%
TREATED LUMBER	323			0.1%
WOODEN OFFICE FURNITURE	246	-81.4%	-78.1%	0.1%

Secondary products exports to China only represent 10.3% of total forest products exports to that market. In 2003, the U.S. shipped just over \$27M worth of secondary products to China. However, this figure represents a 5-yr growth rate of 126.4% from 1999. As evidenced by the robust growth in the Chinese economy, minor forestry products are no exception to the increase in demand. However, as secondary products are considered value-added commodities, the growing Chinese economy still lacks the sophistication to warrant high-level demand for these products. Within the secondary products category, the U.S. exported \$10.5M worth of Continuously Shaped Wood (FMS), which became the largest secondary product category on strong 2003 sales. The bulk of this category was HW products, with 98% of the market. The U.S. also exported \$6.5M in wood furniture to the Chinese market, of which household furniture represents the lion's share of exports (71%). Other major secondary products were Other Builders Carpentry (formwork, shingles, shakes, other NESOI) at \$1.45M and Hardwood Flooring (\$1.4M).

Top secondary performers in the Chinese market were construction-related products such as Hard and Softwood Flooring, Wood Furniture, and Builder's Carpentry (windows, doors, and frames). Hardwood Flooring saw 5-yr growth of 10,600% with virtually non-existent 1999 exports. As noted with primary products, almost all secondary products experienced above average growth during the period in question, but volumes reflect the general macro-economic profile of the Chinese industry and economy. Builders' Carpentry saw strong growth (84.8%) over the period, led by growth in Wood Doors and Wood Shingles/Shakes. Wood Household Furniture was the single largest secondary product to experience significant growth in China, with sales reaching \$4.6M in 2003.

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U.S. EXPORTS BY GROWTH: CHINA SECONDARY			
VALUES IN \$1000			
PRODUCT	2003	5YR Δ	1YR Δ
HW FLOORING	\$1,397	10646.2%	30.8%
HW MOLDING	\$101	381.0%	
COOPERAGE PRODUCTS	\$879	297.7%	43.4%
WOOD KITCHEN CABINETS	\$40	244.8%	-70.8%
WOOD DOORS AND FRAMES	\$662	241.2%	-12.3%
WOOD FURNITURE PARTS	\$591	236.5%	23.1%
WOOD WINDOWS AND FRAMES	\$558	58.5%	475.3%
WOOD HOUSEHOLD FURNITURE	\$4,637	58.5%	77.9%
SW FLOORING	\$222	56.3%	311.1%
WOOD OR WOOD FRAME SEATS	\$998	9.1%	-1.3%



SOUTH CAROLINA EXPORTS

Description	TOTAL VALUE (\$)		SC 5YR	US 5YR	% SHARE	SC RANK	% SC SHARE
	2003	SC 1YR					
WOOD + FURNITURE	6,860,547	75.9%	3160.0%	317.6%	100.0%		
ALL WOOD	6,838,742	75.4%	3149.6%	351.4%	99.7%		2.7%
Lumber	5,638,371	127.5%	2579.2%	315.4%	82.2%	9	4.4%
Logs	1,161,828	2.7%	n/a	612.7%	16.9%	16	1.9%
Tools & Brooms	38,543	85.1%	n/a	2454.7%	0.6%	9	2.3%
Wood Furniture	21,805	-	-	-	0.3%		
Veneer Sheets	0	-100%	n/a	380.2%	0.0%	27	0.0%

The Chinese market has seen record growth from most major suppliers. South Carolina exports have been no exception. Exports to China went from almost nothing to \$6.8M in 2003, by far the highest growth

market in the top 10 countries. This monstrous growth catapulted China to SC's 3rd largest export market, with an estimated market share of 11.0%. However, exports to China followed the U.S. trend, with raw materials leading the surge. As stated earlier, China's economy is importing huge amounts of raw material, then turning around and exporting higher value goods to the rest of the world. The only two categories of exports to China in SC were Logs and Lumber, which accounted for 99.1% of the entire export market. U.S. exports were also very raw material heavy for the Chinese market. Log exports to China represented 16.9% of the SC exports to China, while Lumber accounted for 82.2% of the entire Chinese export market. SC is competitive on a state-level for Lumber. SC ranked 9th overall in Lumber, and a distant 16th in Log exports to China, with 4.4% and 1.9% of the entire U.S. export market to China.

Oak (50.4%) and Other HW (48.6%) accounted for 99% of lumber exports to China. For log exports, SW species accounted for 78.5% of the market, with Other HW taking 18.8% of the market. From SC, Southern Yellow Pine is estimated to have made up the bulk of SW Log exports. The only other category with recordable export sales was Tools & Brooms, with \$38,500 in 2003. Veneer exports to China have been sporadic, and might be attributed to discrepancies in the trade data collection method. As such, they were not analyzed for this report.

BEST GROWTH PROSPECTS

BEST PROSPECTS- U.S. PRIMARY

HW LOGS:	WALNUT, YELLOW POPLAR
HW LUMBER:	WESTERN RED ALDER, RED OAK, YELLOW POPLAR, MAPLE
SW LUMBER:	SOUTHERN YELLOW PINE, PONDEROSA PINE, OTHER PINE (nesoi)
PANEL PRODUCTS:	SW PLYWOOD, FIBERBOARD (<.35g/cm ³), PARTICLEBOARD (OSB/WAFERBOARD)
VENEER SHEETS:	HW VENEERS
WOOD CHIPS:	HW CHIPS

BEST PROSPECTS- U.S. SECONDARY

WOOD FURNITURE:	HOUSEHOLD FURNITURE
BUILDERS CARPENTRY:	DOORS & FRAMES
WOOD CONT. SHAPED:	SW FLOORING, MOLDING, & SIDING

BEST PROSPECTS- SOUTH CAROLINA

LOGS:	SOUTHERN YELLOW PINE
LUMBER:	INCONCLUSIVE, BUT HUGE GROWTH



ECONOMIC FACTORS (GENERATING DEMAND)

GDP GROWTH

Financial Times reports that China's economy grew at an official 9.7 percent in the first quarter of 2004 as ambitious local authorities went on an investment binge and banks continued to lend to a roaring property

CHINA: INDICATORS	1999	2000	2001	2002
GDP per head (\$ at PPP)	3,651	3,980	4,330	4,690
GDP (% real change pa)	7.14	7.95	7.3	8.01
Government consumption (% of GDP)	12.57	13.1	13.2	13.4
Budget balance (% of GDP)	-2.11	-2.79	-2.55	-3.03
Consumer prices (% change)	-1.48	0.35	0.73	-0.77
Public debt (% of GDP)	6.14	8.58	10.43	13.16
Labor costs per hour (USD)	0.53	0.59	0.69	0.8
Recorded unemployment (%)	7.4	8.2	9.3	9
Current-account balance/GDP	2.11	1.9	1.46	2.86
Foreign-exchange reserves (m\$)	157,728	168,278	215,605	291,128

sector in spite of Beijing's orders to rein in credit. The 9.7 percent increase in gross domestic product to Rmb2,711bn (\$328bn) was higher than last year's full-year 9.1 percent increase. Some independent economists use a range of proxy indicators to suggest that the official figures understate reality and China is actually growing at around an annualized 11 or 12 percent. The revision in gross domestic product data showed the economy was expanding even faster than earlier expected. Near 10 percent

growth has raised fears inflation could soar. The National Statistics Bureau said it revised its first quarter GDP figure due to higher than previously estimated growth in services industries such as transport, storage and telecommunications. China's economy grew 9.1 percent last year. Booms in some industries such as steel, cement and construction have strained energy and transport, pushing prices higher. Authorities have tightened monetary policy and lending rules to try to curb speculative investments that they blame for rising inflation.⁴ The official growth target for 2004 is 7%. Below is a table comparing relative economic indicators of China with major economies in the world.

Comparative economic indicators, 2002					
	China	India	Japan	Germany	US
GDP (US\$ bn)	1,266.0	502.0	3,973.0	1,994.0	10,446.0
GDP per head (US\$)	974.0	480.0	31,270.0	24,211.0	36,406.0
GDP per head (US\$ at PPP)	6,033.0	2,620.0	26,739.0	26,663.0	36,406.0
Consumer price inflation (av; %)	(0.8)	4.3	(0.9)	1.4	1.6
Current-account balance (US\$ bn)	35.4	4.7	112.5	46.6	(480.9)
Current-account balance (% of GDP)	2.8	0.9	2.8	2.3	(4.6)
Exports of goods fob (US\$ bn)	325.7	52.7	395.6	615.0	681.9
Imports of goods fob (US\$ bn)	281.5	65.2	301.8	492.8	1,164.7

CONSTRUCTION/ BUILDING INFORMATION

Chinese Construction Spending⁵

Chinese construction continues to grow rapidly, with spending growth of 9.2 percent in 2003 followed by 8 percent on average per annum through to 2007. But China's business risk level, compared to the established markets of Western Europe and North America, could be a tempering factor. Key drivers in China are inexpensive labor and manufacturing costs, coupled with plentiful land for building factories, plants and supporting infrastructure. The key growth sectors in Chinese property and construction are commercial (especially offices) and industrial development. A boom in residential construction is expected to follow as an increasing number of workers migrate to urban centers for employment opportunities. China stands out in the Asian region, not only because of its size and impressive predicted annual growth rate over the next decade but also through the scale and number of construction projects being undertaken and planned. These projects cover all areas of construction, but infrastructure projects are set to dominate with some forecasts showing a 6 percent per annum growth in spending. Coupled with this has been China's accession to the World Trade Organization, which over time will bring more opportunities to international companies and investors. Furthermore, China is set to host the Olympics in 2008 and the World Expo in 2010, both of which are set to trigger extensive construction activity in both Beijing and Shanghai. Major uses for industrial timber include: concrete forms, interior finishing/furniture, wood housing (small demand). Over the short-term opportunities

⁴ Source: http://www.chinadaily.com.cn/english/doc/2004-05/19/content_332004.htm

⁵ Source: <http://www.davislangdon.com.au/Publications/Documents/wcro03-04.pdf>



exist for “niche” high-end products for single family homes, including outdoor products. Over the longer term, treated wood products look to be favorable for multi-family units.⁶

HOUSING STARTS

Chinese housing starts are rising much faster than sales. A major correction in property prices in China is possible. The properties under construction have exceeded the sales in the past five years. Double-digit vacancy rates are common in major cities. Speculative motives dominate both developers and buyers. The correction could come with either an interest rate hike or supply overwhelming speculators' finances.

The Chinese market for housing construction and building materials is considered one of the largest and rapidly expanding markets in the world. According to the U.S. Department of Commerce, Chinese State economic reforms, which designated the building material industry as an engine of economic growth in 1999, are promoting the development of the housing industry. From 2000 to 2003, government officials plan to increase spending on new homes by 15 per cent by investing US\$97 Bn (8 trillion RMB) in infrastructure and residential housing construction.

China also plans to accelerate the development of its western regions so as to narrow the gap between coastal and inland areas. The government has also indicated its commitment to raise the development standards of rural areas to those of urban areas in the course of promoting urbanization. These reforms, coupled with the increase in development, have resulted in a shift in the Chinese residential construction industry. There is a movement away from traditional building materials and building styles, and an increased emphasis on the use of energy efficient and environmentally friendly building materials. This opens the market for North American made building products. In 1999 alone, the Chinese market size for these types of building materials grew 24.7 per cent from the previous year and is expected to continue to increase in coming years.⁷

It is anticipated that these housing reforms will also stimulate the consumption of home furnishings and fixtures, provide more employment, and increase the demand for infrastructure to support new housing developments. As the Chinese people become wealthier in the next few decades, the government will need to examine ways in which the economy can be adapted to respond to the big changes in consumption demands.

With rapid growth in urbanization, modernization, private ownership and entry to the WTO, the Chinese housing market offers both immediate and long-term opportunities for the U.S. wood products companies. U.S. wood frame houses, value-added wood products and coatings and sealants are in increasingly high demand. Insulated concrete is being introduced and improved finishing materials are now being imported to meet consumer demand for higher quality interior finishes.

Moreover, as China adopts an energy efficient approach to building systems and practices, the U.S. is extremely well positioned to capture a larger share of the market with a variety of leading-edge housing products and technologies.

⁶ Source: www.forestprod.org. International Markets for Treated Wood, 2002.

⁷ Source: U.S. Department of Commerce



TRADE FACTORS (AFFECTING U.S. EXPORTS)

GENERAL

U.S.-China economic ties have expanded substantially over the past several years. Total U.S.-China trade rose from \$5 Bn in 1980 to \$147 Bn in 2002. China is now the fourth-largest U.S. trading partner. With a huge population and a rapidly expanding economy, China is a potentially huge market for U.S. exporters. Yet, U.S.-China commercial relations have been strained by a number of issues, including a surging U.S. trade deficit with China (\$102.3 Bn in 2002), China's restrictive trade and investment practices, and its failure to provide adequate protection for U.S. intellectual property rights (IPR).

TRADE AGREEMENTS

The rapid rise of China as an economic and trade power during the 1980s led U.S. trade officials to take a greater interest in China's trade regime. U.S. officials complained that, while U.S. markets were generally open to Chinese products, Chinese markets were largely closed to U.S. products, due to China's extensive use of tariff and non-tariff barriers. In 1991, the United States threatened to impose \$3.9 Bn in trade sanctions against China unless it removed specific trade barriers. In October 1992, the United States and China settled the trade dispute after China agreed to reduce or eliminate a wide variety of trade barriers, make its trade regime more transparent, and to eliminate scientific standards and testing barriers to agricultural imports. The 1992 accord was somewhat successful in getting China to liberalize its trade regime. Thereafter, U.S. officials sought to use China's desire to join the World Trade Organization (WTO) as a means to negotiate even greater access to China's markets.

THE U.S.-CHINA WTO AGREEMENT ⁸

On November 15, 1999, U.S. and Chinese officials announced that a bilateral agreement relating to China's WTO bid was reached. The Clinton Administration released the full text of the agreement on March 14, 2000. Under the agreement, China promised that after gaining WTO membership it would take the following steps (some on accession and others over specified phase-in periods):

- Provide full trading and distribution rights (including the ability to provide services auxiliary to distribution) for U.S. firms in China.
- Cut average tariffs for U.S. priority agriculture products (beef, grapes, wine, cheese, poultry, and pork) from 31.5% to 14.5% by 2004. Overall industrial tariffs would fall from an average of 24.6% to 9.4% by 2005 (tariffs on U.S. "priority products," such as wood, paper, chemicals, and capital and medical equipment, would fall even further). Tariffs on information technology products, such as computers, semiconductors, and telecommunications equipment, would be cut from an average level of 13.3% to zero by 2005.
- Establish a tariff-rate quota system for imports of agricultural bulk commodities (such as wheat, corn, cotton, barley, and rice), i.e., imports up to a specified quota level would be assessed a low tariff (1-3%), while imports above a certain level would be assessed a much higher tariff rate. Private trade in agricultural products would be permitted for the first time.
- Phase out quotas and other quantitative restrictions (some upon accession, many within two years, and most within five years). Quota levels for many products would expand by 15% each year until the elimination of the quota.
- Eliminate unscientifically based SPS restrictions on agricultural products and end export subsidies.
- Reduce restrictions on auto trade. Tariffs on autos would fall from 80-100% to 25% (tariffs on auto parts reduced to an average rate of 10%) by 2006. Auto quotas would be eliminated by 2005. U.S. financial firms would be allowed to provide financing for the purchase of cars in China.

⁸ Source: State Department. "China-U.S. Trade Issues" <http://fpc.state.gov/documents/organization/21120.pdf>



- Provide fair treatment for foreign firms operating in China by removing government rules requiring technology transfer, local content, and export performance conditions.
- Provide that Chinese state-owned firms make purchases and sales based on commercial considerations and give U.S. firms the opportunity to compete for sales on a non-discriminatory basis.
- Accept the use by the United States of certain safeguard, countervailing, and antidumping provisions (over transitional periods) to respond to possible surges in U.S. imports from China of various products, such as textiles, that might cause or threaten to cause market disruption to a U.S. industry.

TARIFFS ⁹

Tariff rates continued to decrease in 2003 in accordance with China's World Trade Organization accession agreement. The average tariff on timber, pulp and paper products is 7 percent in 2003. The tariff on logs and lumber has been zero since January 1, 1999. The tariff on panel products continued to decrease at different rates, depending on the type of product. Using 2003 tariff rates, average import tariff on veneer, particleboard, fiberboard, and plywood fell to 5 percent, 7.2 percent, 7 percent, and 10 percent, respectively. The tariff on furniture was reduced to 7.3 percent in 2003 from 11 percent in 2002.

A 13 percent Value-added tax (VAT) continued to apply to logs, while the VAT for other processed wood products is 17 percent. A full VAT rebate still is available for re-exported wood products.

As the table below shows, in addition to lowering its tariff rates, China also expanded the number of product categories and related codes in its tariff schedule.

Product	Old # Lines	New # Lines
Logs	12	25
Sawn wood	13	19
Veneer	16	19
Plywood	9	12

Additional breakouts for tropical timber were added. These new tariff categories include Okoume, Kapur, Keruing, Merbau and Mengaris. Imports of these species have been growing rapidly in recent years. Temperate coniferous species, whose imports have been increasing very fast in recent years, are recorded individually under the new scheme. The species include Korean pine, Radiata pine, White pine (including Spruce and Fir), and Monterey Larch. Furthermore, exclusive tariff lines for some temperate broadleaf species are proposed, including Manchurian ash (4403.9950), North America hardwoods (including Cherry, Walnut and Maple) (4403.9960) and other previously unspecified non-coniferous species (4403.9980). Also, a new tariff line was added for impregnated paper laminated flooring.

China's Ministry of Finance and China's Customs agency announced in May 2003 that the value added tax (VAT) on 19 products, including newsprint and wood pulp, would be terminated as of June 1, 2003. In order to promote economic development in China's border regions, the Chinese government reduces by one-half the VAT on all goods entering from border countries, so the reduced tariffs for processed wood products and logs are 8.5 percent and 6.5 percent, respectively. While the U.S. paper industry should benefit from this policy change, this measure does not affect imports of logs and lumber. This preferential tax treatment has helped Russia maintain its position as the dominant supplier of logs and lumber to China.

⁹ Source: <http://www.fas.usda.gov/gainfiles/200308/145985736.pdf>



POLICY

CERTIFICATION

On July 1, 2002, China imposed new quarantine measures requiring pest-free certification for all imported logs. Sources stated that enforcement of these new measures appears to be proceeding smoothly. Given the similarity in species and the MOU between Russia and China, the new measures have not slowed to flow of logs from Russia in the border regions. Russia does not have its own quarantine facility, so the MOU provides for several large “wood processing zones” in the ports of entry between Russia and Heilongjiang, and Russia and Inner Mongolia, both of which receive large shipments of Russian logs. A quarantine process is done in these wood-processing zones. During the winter, Chinese officials conduct quarantine procedures on the Russian side of the border in the above mentioned entry points and in the summer switch back to the Chinese side.

CHINA TIMBER STANDARD

The Chinese government is developing a timber standard for the industry, in light of recent surges in import demand. Under the authority of the Ministry of Commerce, the China Wood Preservation Center is developing a voluntary industry standard for all commercial wood products in China. The standard will include information regarding species, product name, trademark, size, grade, manufacturer, moisture content, manufacturing date, treatment method, inspecting agency and wood certification status. U.S. exporters should be aware.

WOOD FRAME CONSTRUCTION CHANGES

In 2003, China’s Ministry of Construction (MOC) adopted building inspection and design codes that permit wood-frame construction. Before, builders and developers had to navigate through bureaucratic red tape to gain special approval to build wood-frame structures. With the new codes, builders and developers will be able to sell, rather than just lease, wood-frame homes, putting them on equal footing with builders and developers of masonry and concrete homes. This is seen as very positive for potential U.S. exporters to China.

CHINA WOOD AND BUILDING MATERIALS MARKET: A SOURCEBOOK FOR EXPORTERS ¹⁰

“The China Wood and Building Materials Market Sourcebook” is the first phase in a three-year research effort undertaken by the Center for International Trade in Forest Products (<http://www.cintrafor.org/>) and its partners, the Evergreen Building Products Association, the Softwood Export Council and the American Forest & Paper Association. This Sourcebook presents an analysis of China's economic and market information that pertain to the following topics. Ongoing research over the next three years will focus in growing detail on building materials distribution and the residential construction industry.

The Sourcebook is intended to help guide U.S. building materials and wood products exporters in evaluating opportunities in the Chinese market. The Sourcebook is available free of charge to Evergreen Building Products Association members and for \$20 for non-members. To order a copy of the Sourcebook email U.S.-China Build at rbraden@uschinabuild.org.

Read the Sourcebook abstract at <http://www.uschinabuild.org/MarketResearch/SourcebookAbstract.pdf>

¹⁰ Source: <http://www.uschinabuild.org/MarketResearch/mktrsrch.htm>



COUNTRY INFORMATION SOURCES

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