

China and the Global Market for Forest Products: Transforming Trade to Benefit Forests & Livelihoods



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Forest Trends
Washington, DC * March 8, 2007

Basic Dynamics of Supply and Demand

Varying projections of domestic production and China's ability to be self-sufficient by 2015.

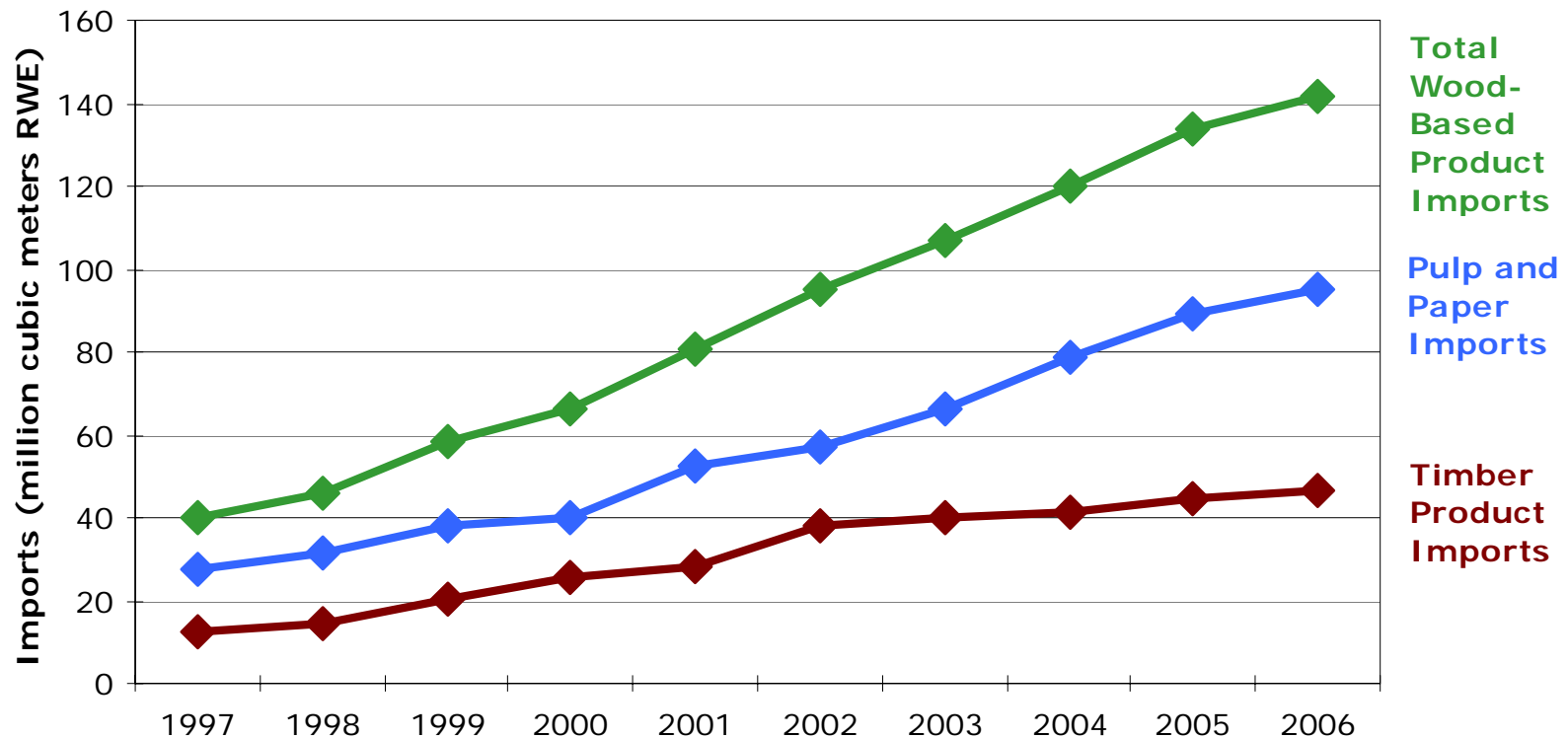
NDRC 2006: 150 million m³ gap between domestic supply of industrial roundwood and demand (domestic consumption + exports).

This gap to be addressed by:

- imports
- improvements in domestic production
- substitution
- greater efficiency

China's Import Growth

Forest Product Imports to China, 1997-2006

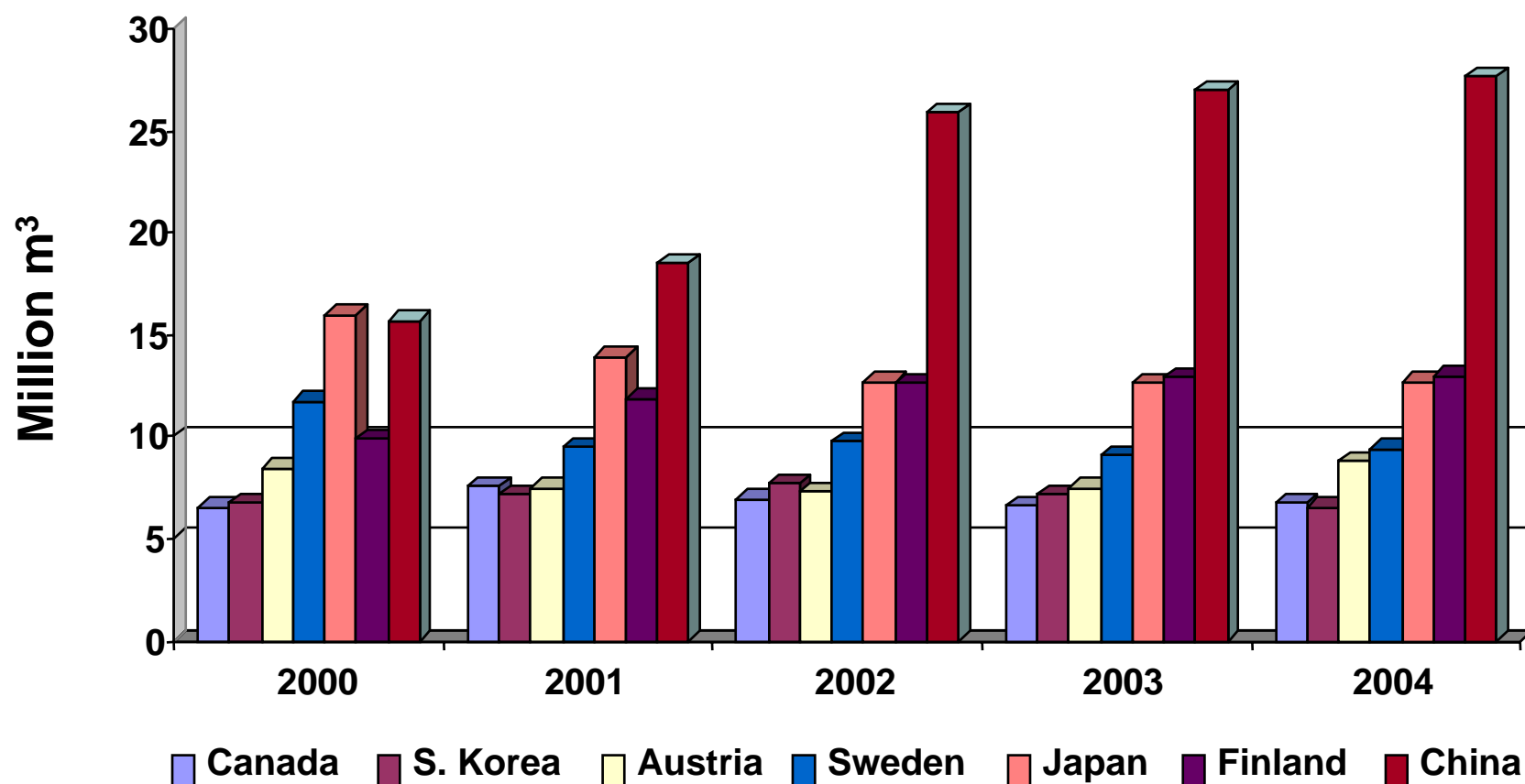


Source: Chinese Customs data

- World leader in wood imports
- World's leading importer of tropical wood
- 2 X increase in pulp, waste and recycled paper
- 3.5 X increase in timber

Global Context: Increasing Imports

World's Top Industrial Roundwood Importers

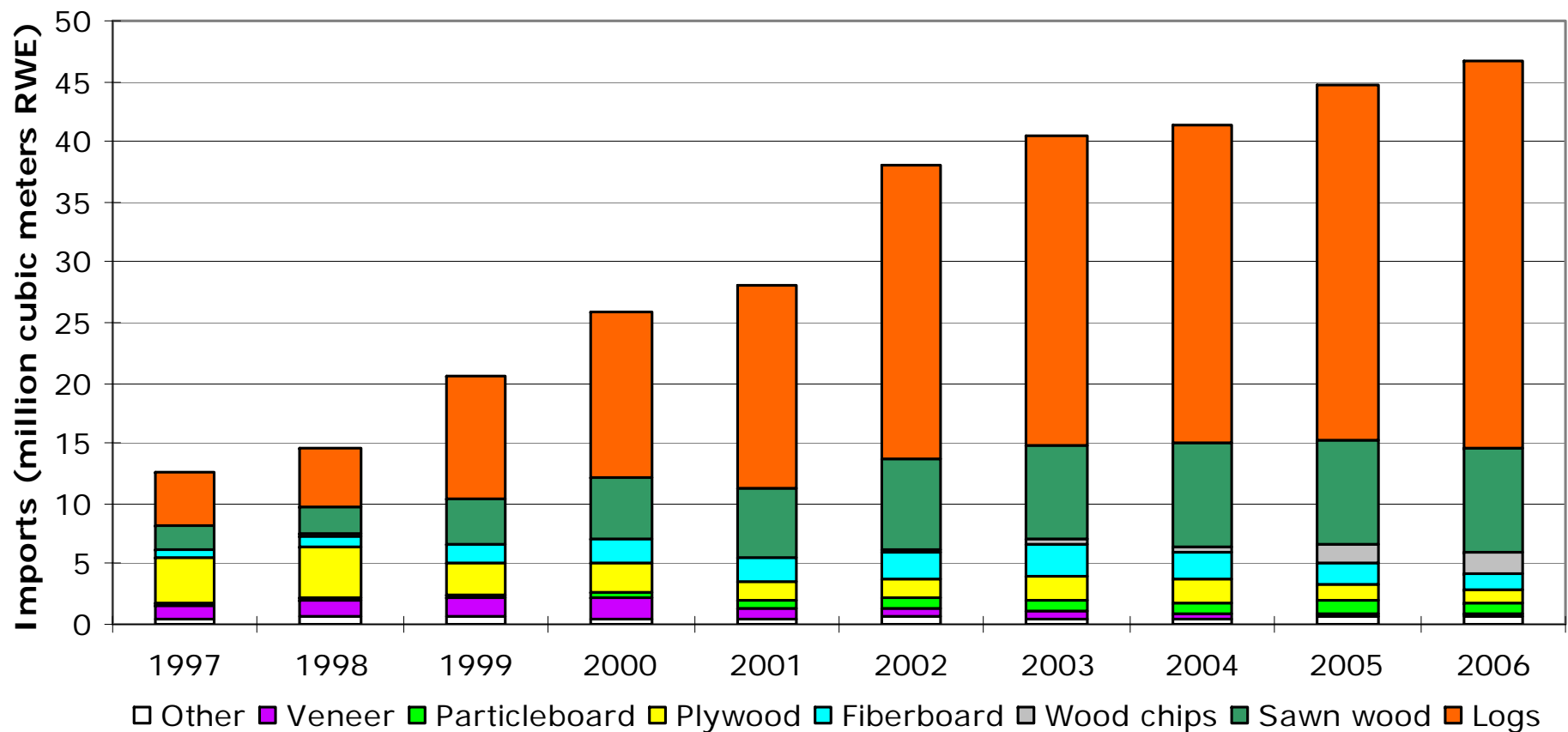


Source: FAOstat and China Customs

China's Timber Imports by Product Type

Logs & sawnwood up ** Plywood & veneer down

China's Timber Product Imports by Category

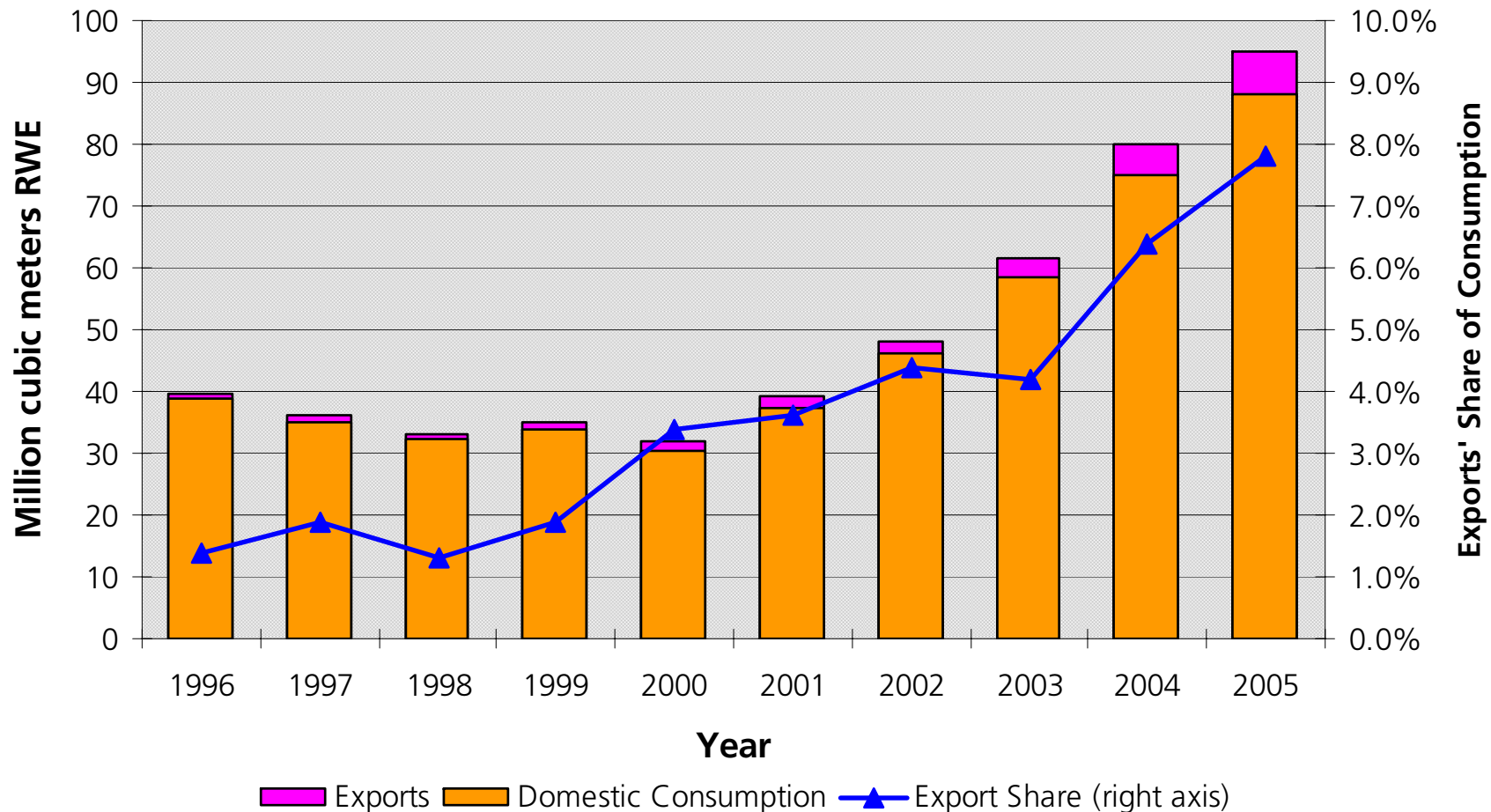
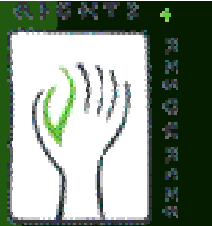


Source: Chinese Customs data



Drivers of Demand

Exports vs. Domestic Consumption

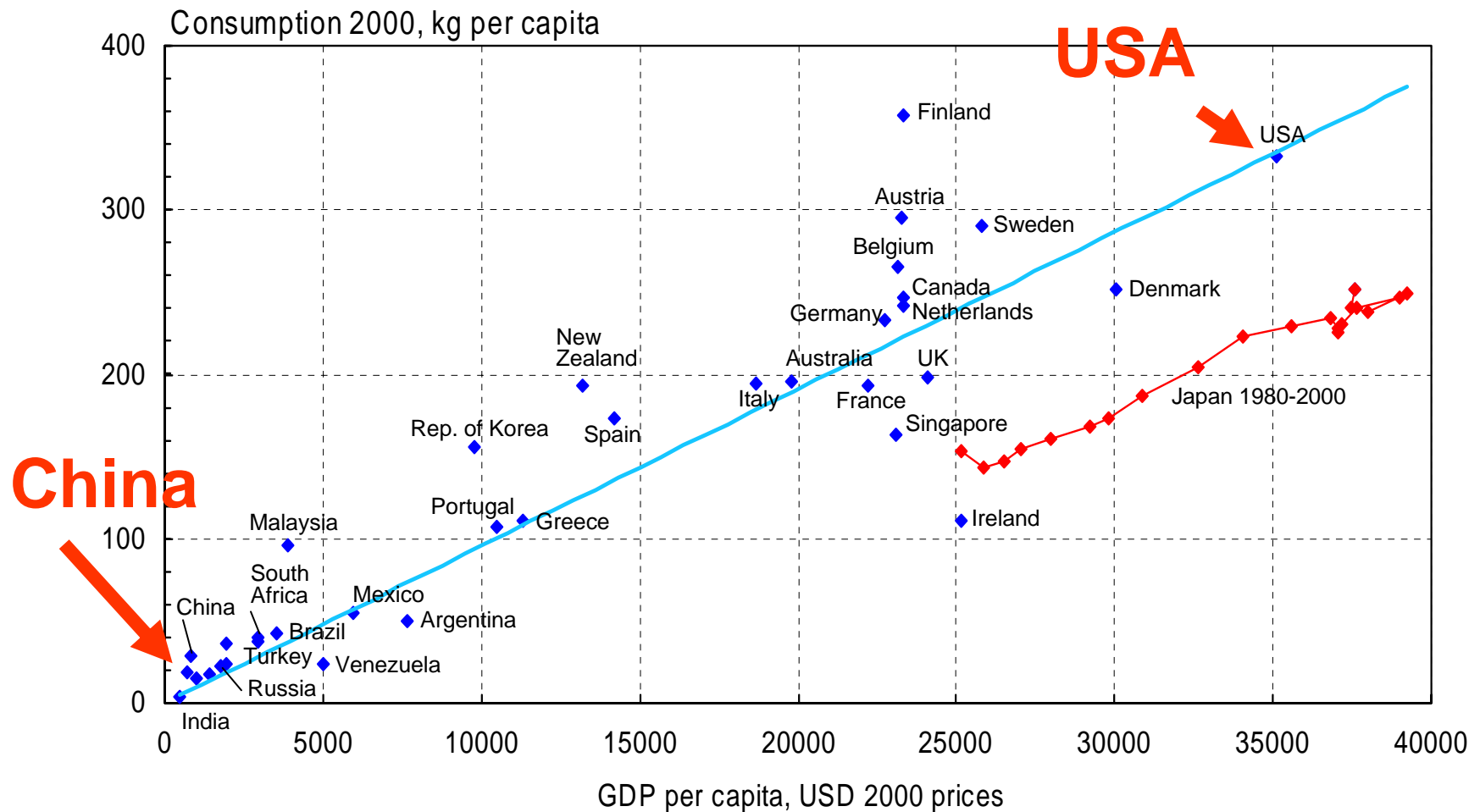


Total consumption of wood products has grown rapidly over the past decade.

Adapted from Figure 17 of Fuller, Bernard. 2006. *China's Rapidly Expanding Wood Products Market: Are they Sustainable?* Bedford, Massachusetts: Resource Information Systems Incorporated (RISI).

Drivers of Demand: Domestic Consumption

GDP per capita and Paper Consumption



Drivers of Demand: Export Demand

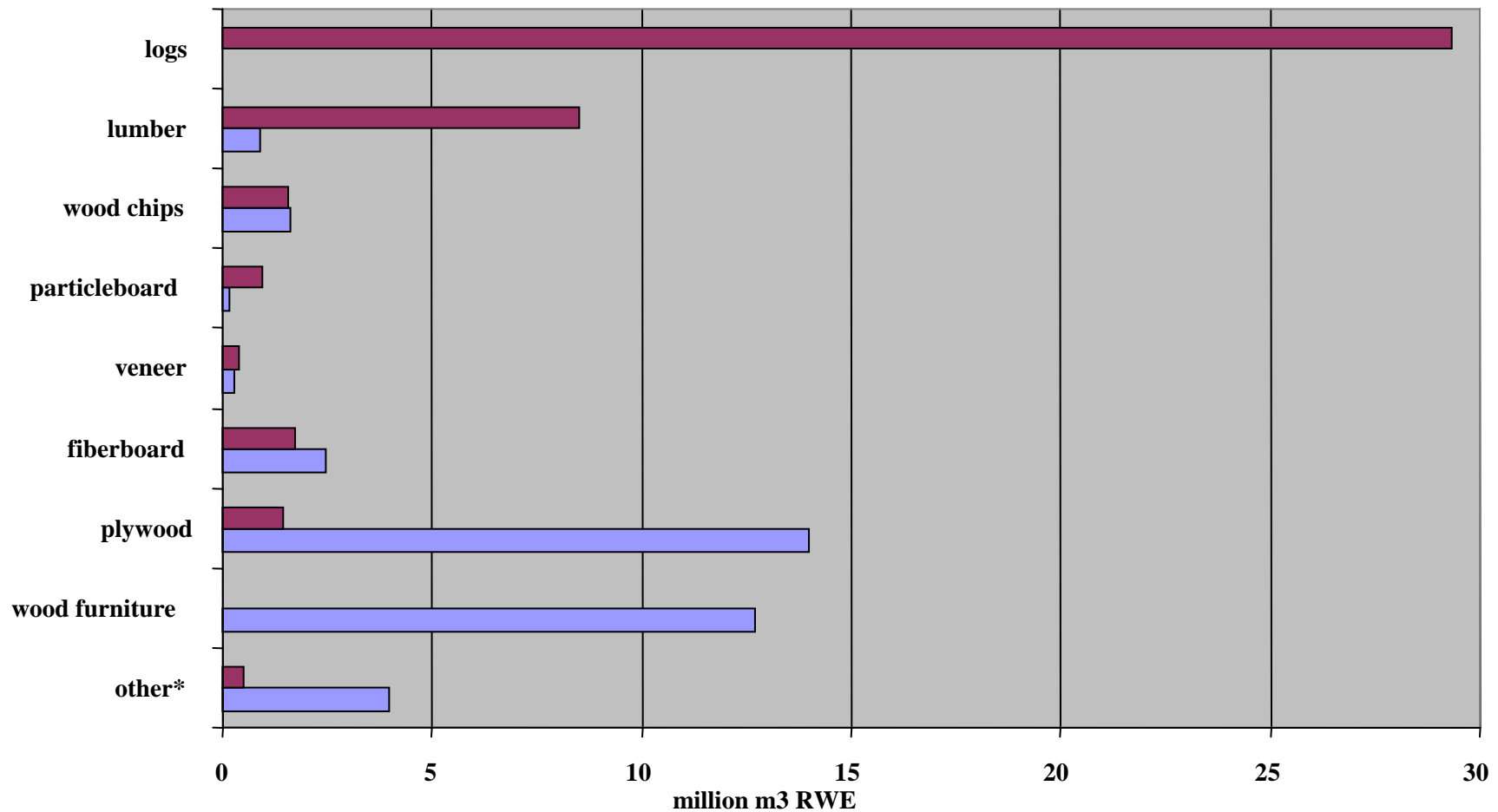


Pulp and paper different story: only 11% is re-exported
Russian timber different story: majority stays in China itself

Mainly tropical timber processed into furniture, plywood that are exported

China's Growth as a Wood Processing Center

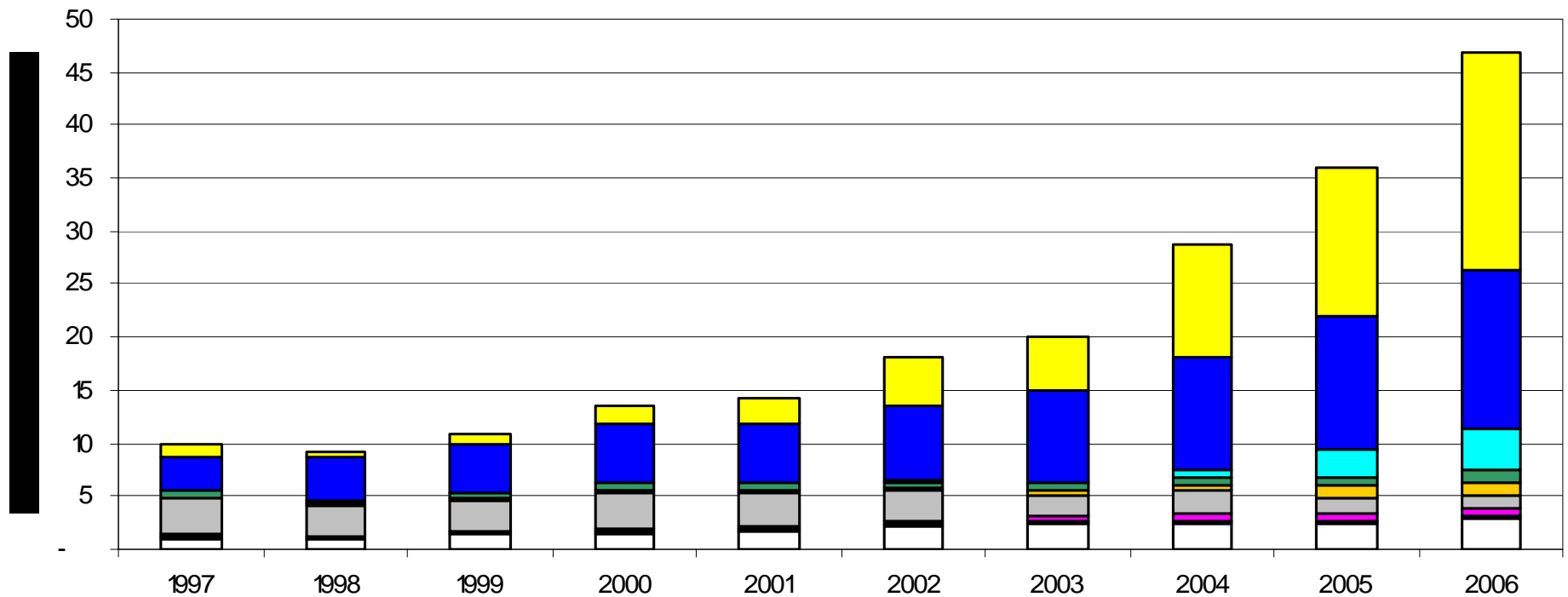
*Imports primary materials * Exports manufactured products*



China's Timber Product Exports: Plywood and Furniture

- 364% increase by value (\$13.1b)
- Wooden furniture & plywood +400, +1000%

- Logs & lumber stable
- Wood chips -50%



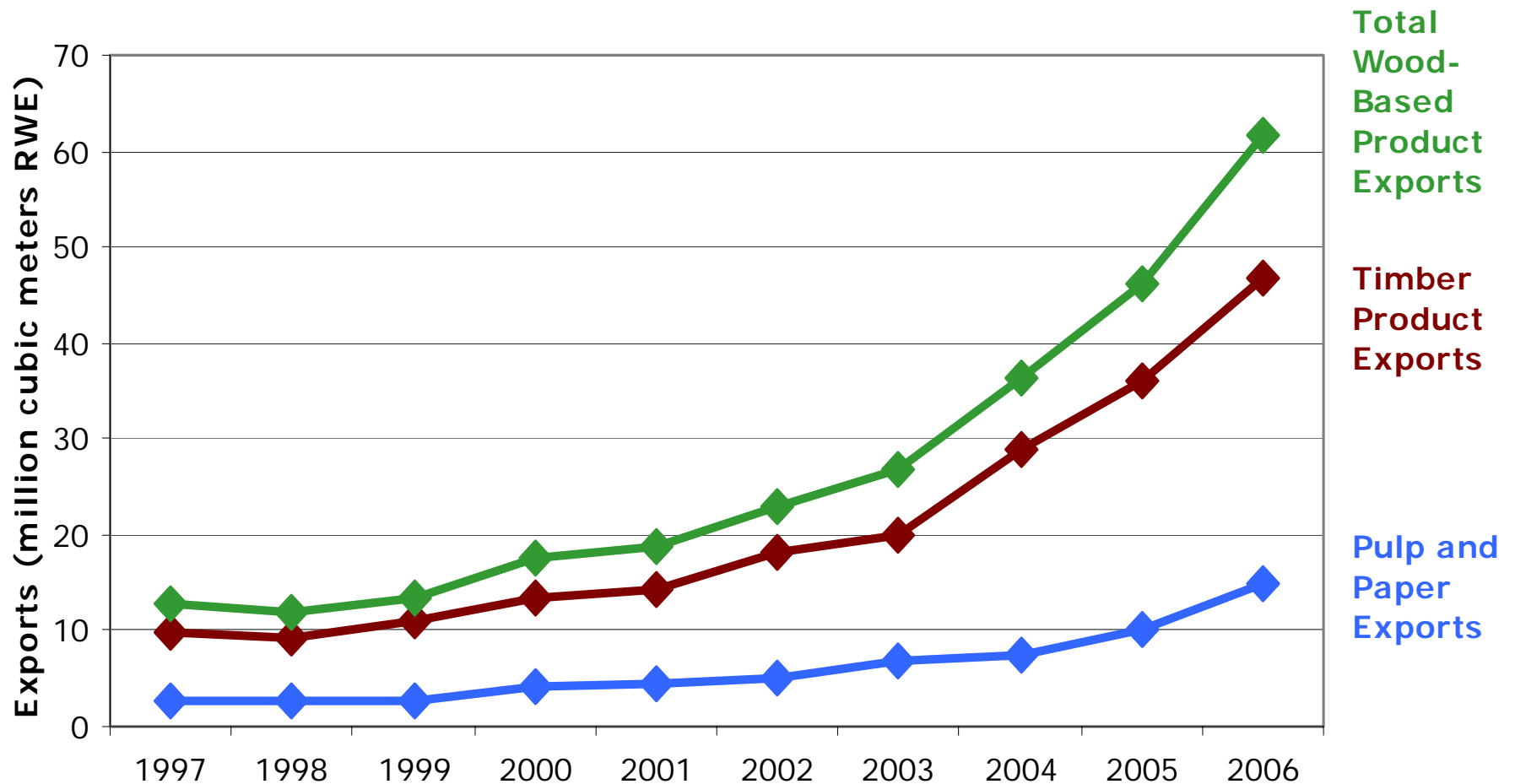
Other
 Wood chips
 Furniture

Logs
 Floorings & moldings
 Plywood

Veneer
 Sawn wood

Int'l Demand for China's Forest Product Exports (1997-2006)

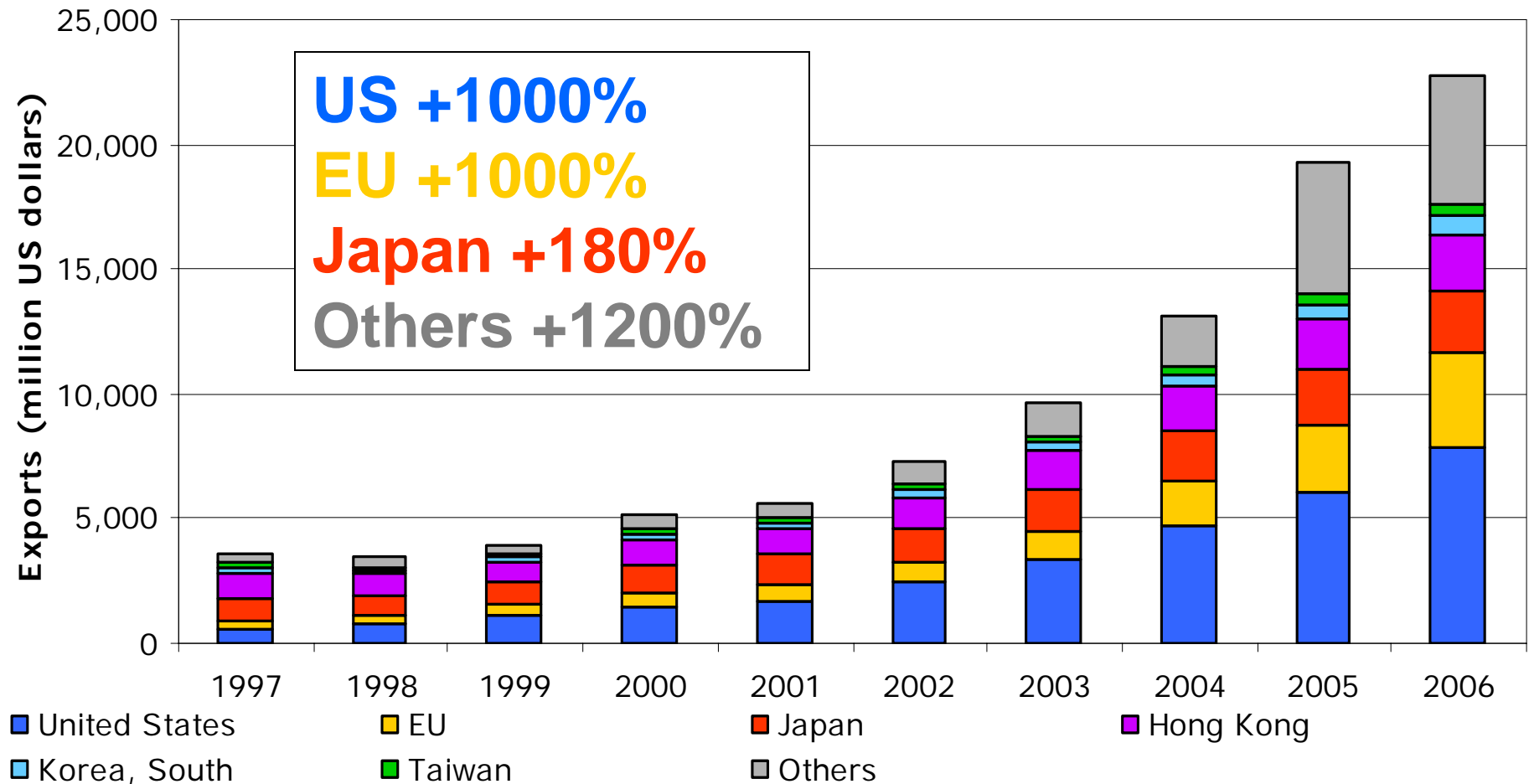
Forest Product Exports (Volume)



Source: Chinese Customs data

Major Destinations of Chinese exports

Forest Product Exports by Destination (Value)



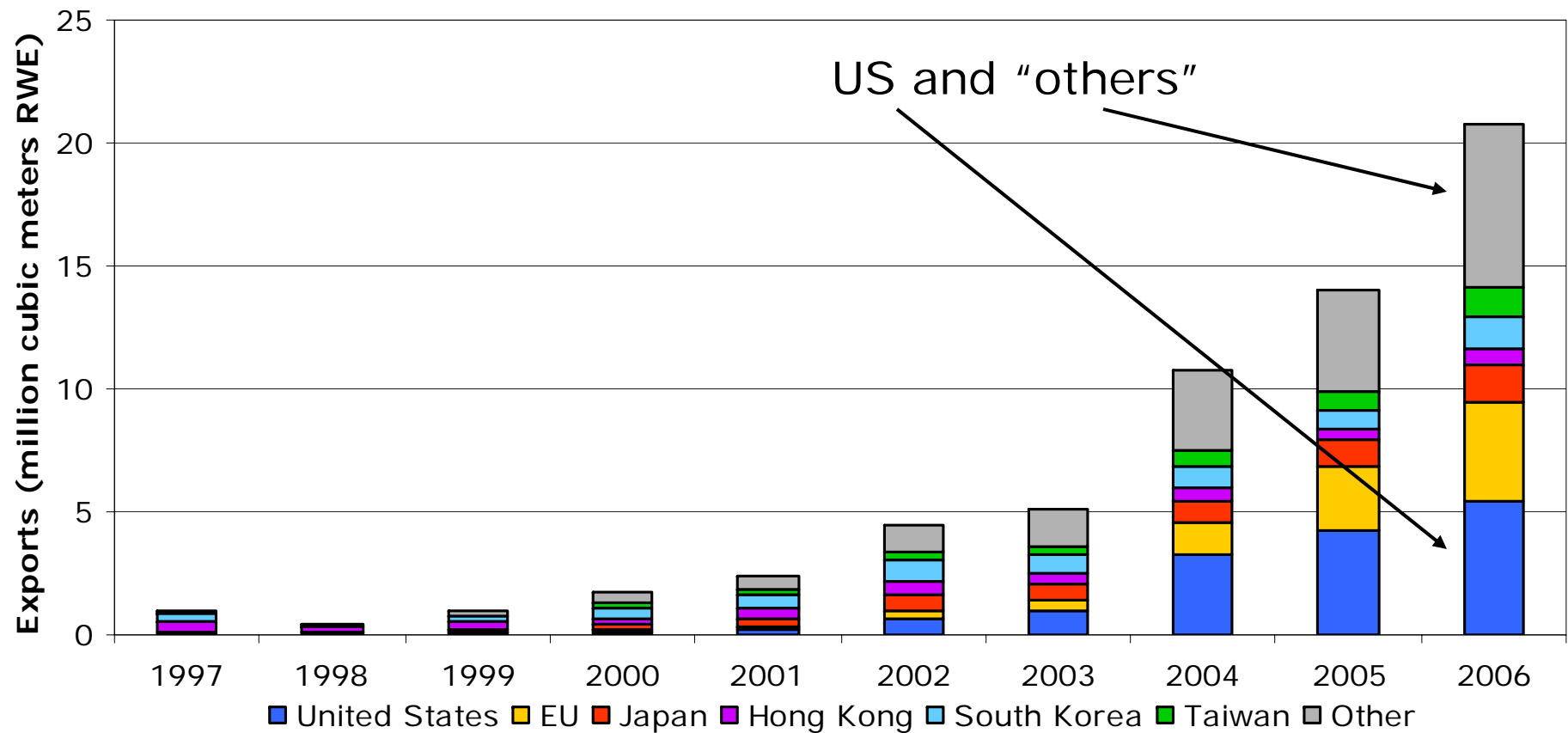
Source: Chinese Customs data

Major Destinations: Plywood

1997-2006: 1,980% increase

2005-2006: 48%

Plywood Exports by Destination



Source: Chinese Customs data

Largest Suppliers of Wood Products to China (2005)

Timber Products	Logs	Lumber
1. Russia ¹ 49% 2. Malaysia 8% 3. Indonesia 6% 4. Thailand 5% 5. PNG 4% <i>¹ 26.4 million m³</i>	1. Russia ¹ 68% 2. Malaysia 6% 3. PNG 6% 4. Myanmar 4% 5. Gabon 3% <i>¹ 20 million m³</i>	1. Russia 18% 2. USA 14% 3. Thailand 13% 4. Indonesia 12% 5. Malaysia 8%
Plywood	Wood Pulp	Paper
1. Indonesia 65% 2. Malaysia 21% 3. Russia 3% 4. Japan 2% 5. Hong Kong 3%	1. Canada 27% 2. Indonesia 18% 3. Russia 13 % 4. Chile 10% 5. US 10%	1. Taiwan 16% 2. USA 13% 3. S. Korea 12% 4. Japan 8% 5. Indonesia 7%

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Governance Problems in Major Supplying Countries

Russian Far East/Siberia:

- Significant resource base, but much is illegal and ecologically damaging

Malaysia:

- Malaysia increasingly concerned about reputation risk & being blamed for laundering illegal Indonesian lumber

Myanmar:

- Human rights abuses, illegality, corruption, harvesting organized by militants

Papua New Guinea

- illegal logging, illegal labor, human rights abuses
 - Forest Department review World Bank audits confirm (2000-2005)

Thailand, Cambodia, VietNam:

- Natural forest being lost or threatened, intense social conflict-exclusion over land rights, pressure to increase plantations to supply China

China Industry Vulnerable from Supply *and* Demand Side

Insecure supply and prices as:

- Natural forests dwindle in SE Asia (historical suppliers)
- Plantations are not yet on-line
- Potential for illegal logging campaigns increase
(Indonesia 2005 government crackdown > 83% decrease in volume of merbau logs arriving in China)
- Russian log export taxes up to 80% by 2009

Environmental sensitivity in some of its fastest growing markets: EU, North America, Japan

Governmental Public Procurement Policies

- European countries, Japan, New Zealand



Drivers of Russian – China Forest Trade

Sino-Russian Forest Products Trade

10% of overall trade between the two countries

Russia: #1 forest products supplier to China

China: Most important market for Russian timber

40 fold increase in log trade between 1996 – 2005

- (a) similarity of wood species in the Russian Far East and northeast China (China's traditional timber base);
- (b) low prices and China's decision to reduce tariffs (0% log import tariff);
- (c) convenience in border trade and rail links between Russia and the neighboring Chinese provinces;
- (d) favorable tax policies for border trade; and
- (e) Russia's resumption of maritime shipping of timber products in 2001, enabling Russia's timber to be directly shipped to the major timber consuming regions on China's eastern coast

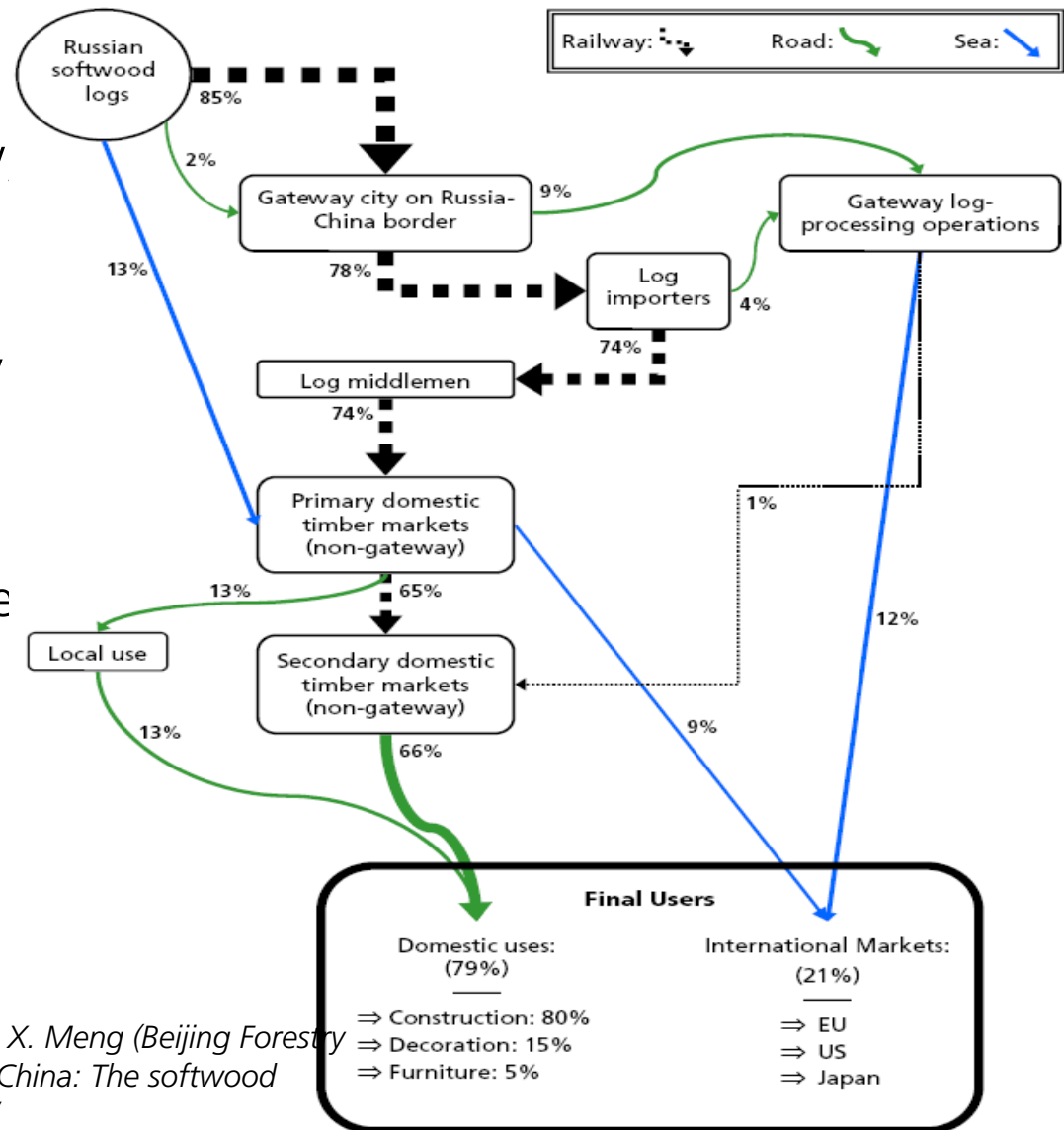
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The Commodity Chain for Russian Softwood Imports to China

- ~80% consumed domestically mostly by construction sector
- ~20% for export to U.S., EU, Japan— over half from Chinese processors at border.
- Complicated supply chain cre challenges for timber tracking



Source: Estimates from Song, W., B. Cheng, S. Zhang, X. Meng (Beijing Forestry University). Forthcoming Forest Trends "Russian logs in China: The softwood commodity chain and economic development in China"



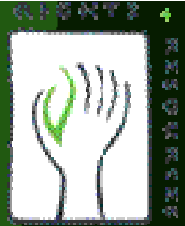
Change Afoot: Russia's Desire to Increase Value-Added Processing

- Proposed log export taxes increasing to 80% of exp value by 2009
- Incentives for investors in wood processing
 - No VAT to import processing equipment
- 2006: Russian and Chinese officials announce joint forestry venture in Siberia
- Many international investors, however, see Russia as a risky investment climate (new & uncertain Forest Code)
- CN MofCom recognizes need to ensure legal trade and investment relationships with major trade partners:
 - Need to combat “China Theory”: fear of Chinese domination in mrktplace
 - Recognition that small-scale illegal Chinese operations have created a bad reputation for larger operations that would like to invest in Russia

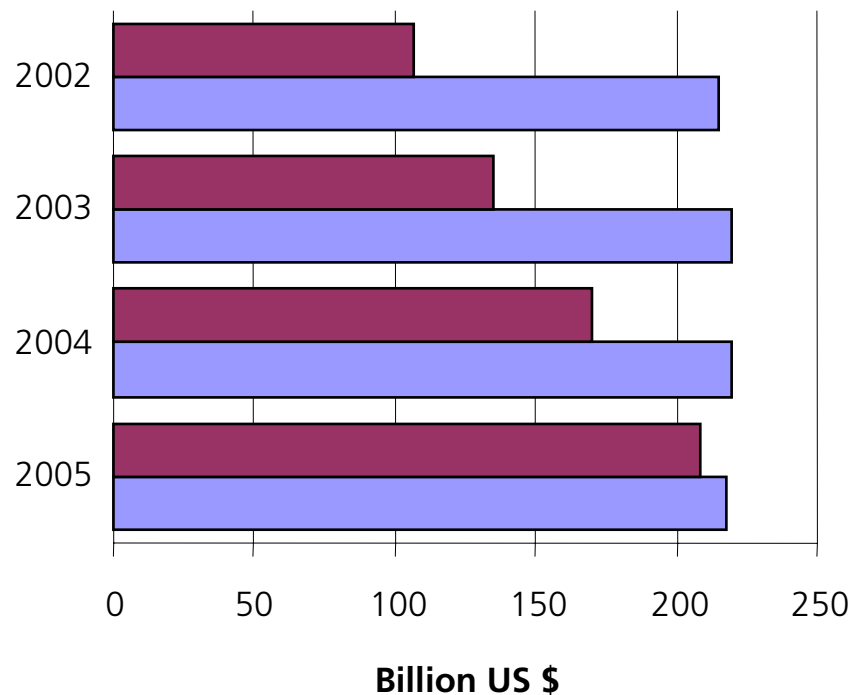
Expanding RFE / Siberia production zones?



Source: *Geographicheskii atlas Rossiyskoy Federatsii (Geographical Atlas of the Russian Federation)*. Moscow, Rosgeodesiya 1999.



China Development Bank vs. World Bank: Outstanding loans



- China Development Bank (converted to dollars at average rate per for year)
- World Bank (which also disburses some aid in grants)

Sources: China Development Bank; World Bank.

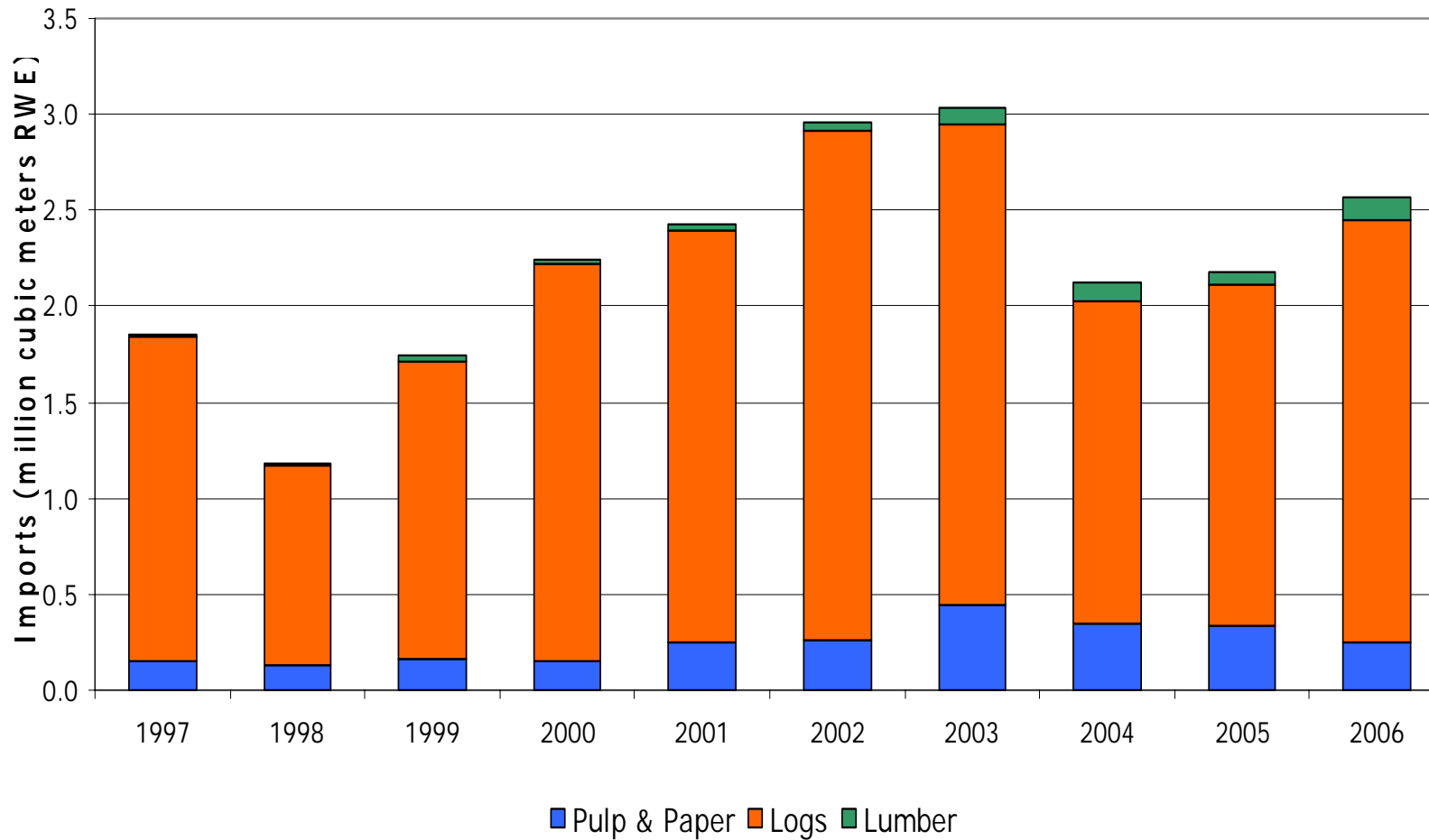
Developing countries say China is often prepared to help when traditional donors are not, and will sometimes pay over the odds, to secure natural resources. The west African state of Gabon, for example, after trying unsuccessfully for years to interest American and European investors in extracting its rich iron ore deposits, found China was eager”

– *Financial Times*, Jan. 12, 2007.



Africa's Forest Product Exports to China

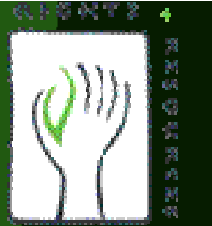
China's Total Forest Product Imports from Africa By Type



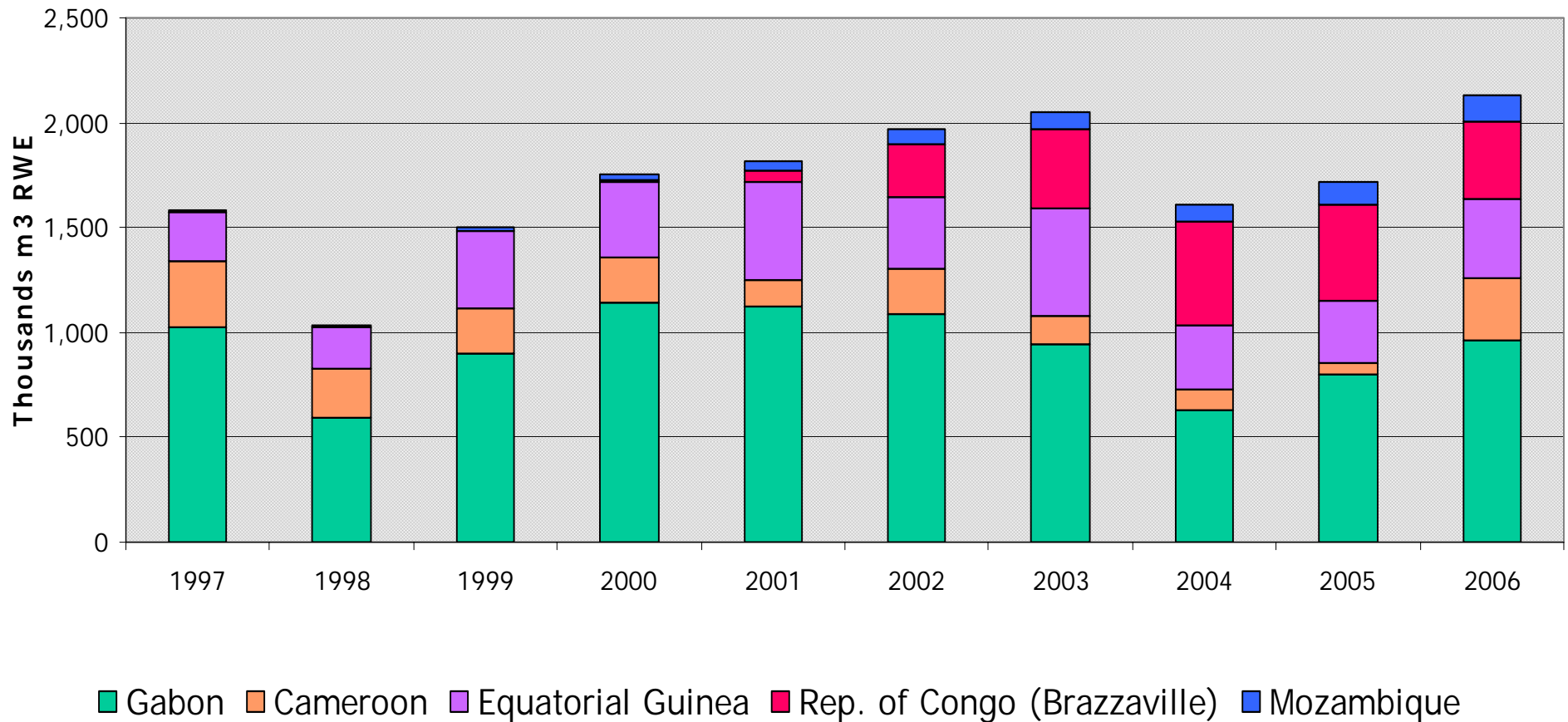
S. Africa & Swaziland (99% pulp & paper)

Source: Chinese Customs data

Top 5 African Log Suppliers to China (2005)



Top 5 African Log Suppliers to China



*** Important forest producing nations in West Africa do not export to China: Ivory Coast, Ghana**

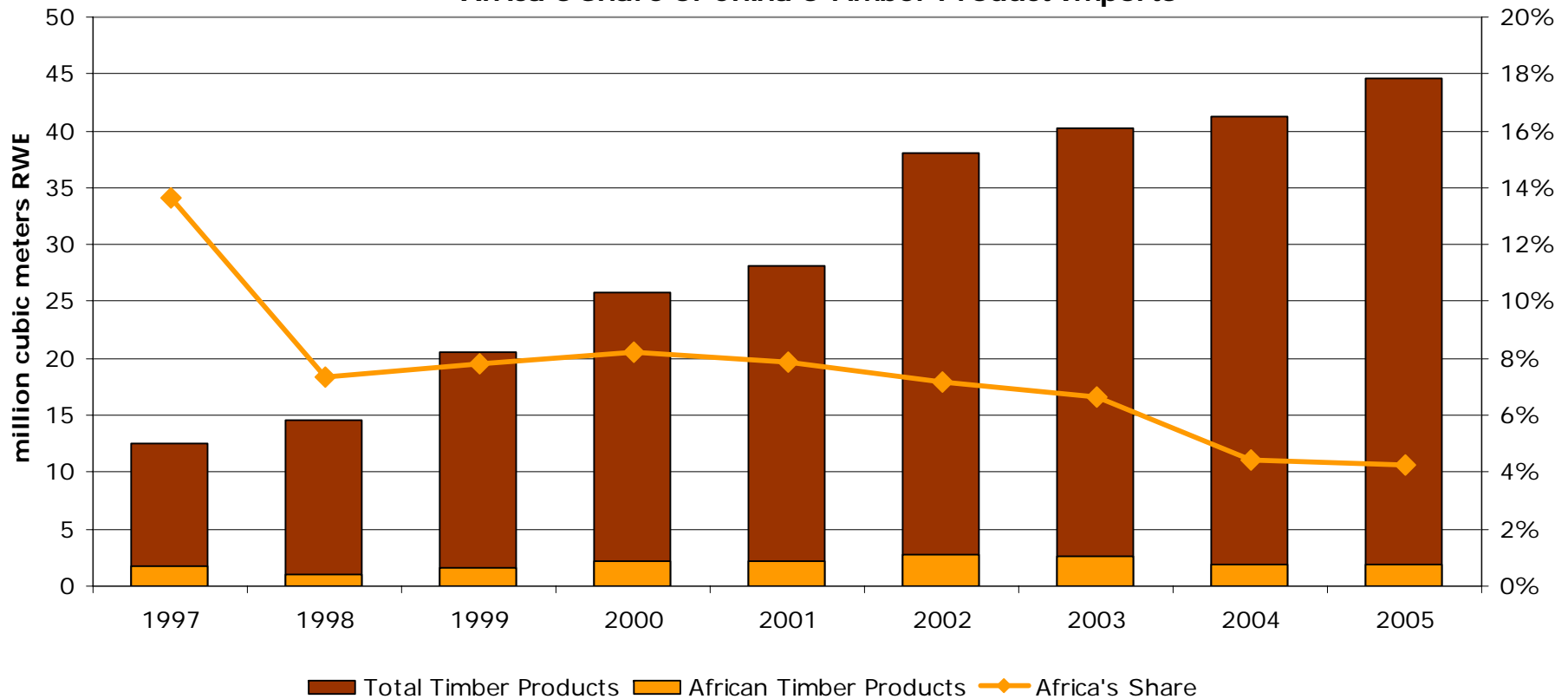
Source: Chinese Customs data



Africa's Share of China's Timber Imports



Africa's Share of China's Timber Product Imports



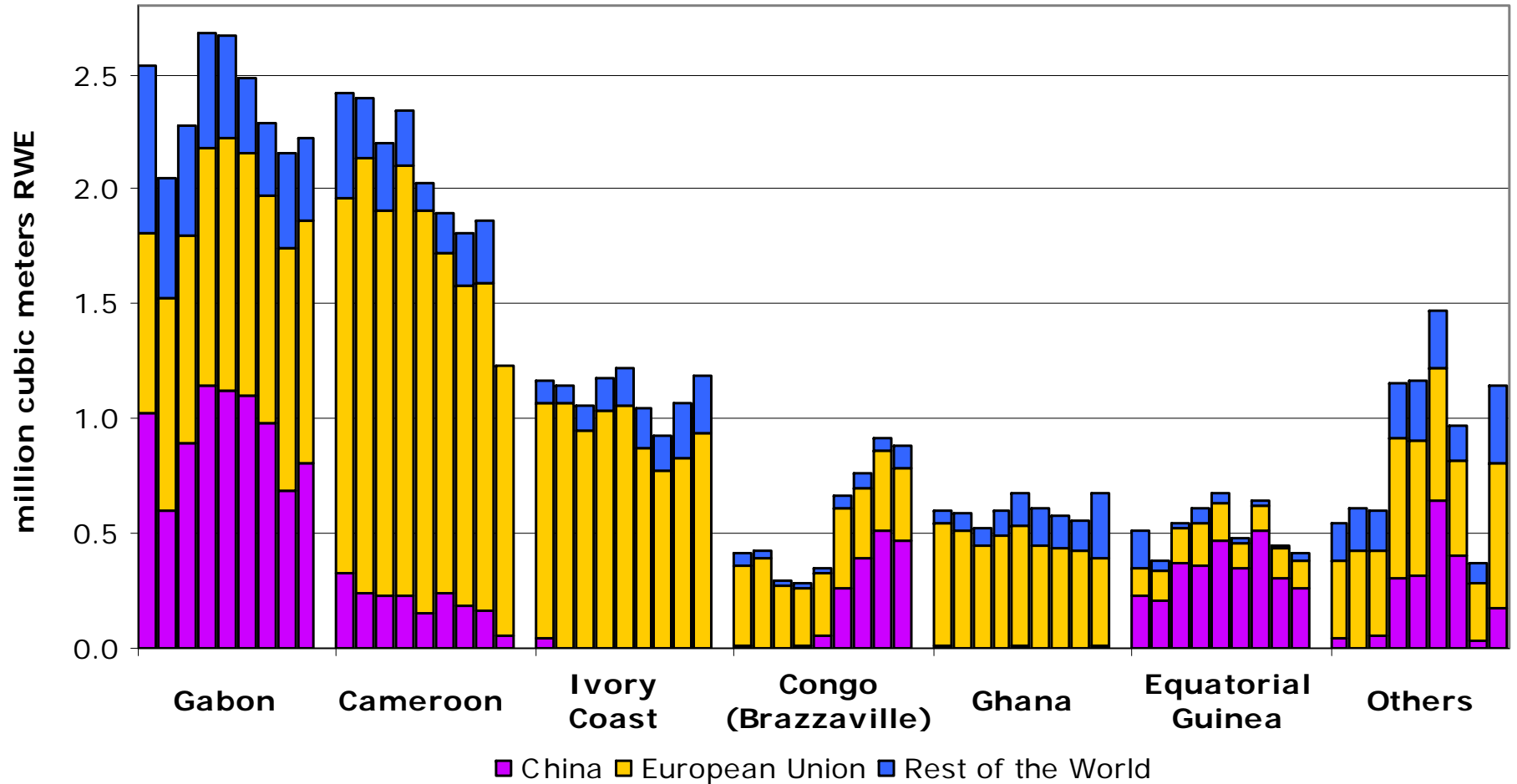
Logs 2nd largest category of African exports to China (4.9%), following oil (62.2%)

Source: UN COMTRADE SITC Revision 2, cited in Boardman, G. 2006. "Africa's Silk Road." Washington D.C.: World Bank.

Europe Still Dominate Importer of African Timber



Annual exports from natural tropical forest (1997-2005)



Source: J. Hewitt/COMTRADE

Recent Chinese Government relevant policy changes

Objective: to slow down heated export-oriented economy or to promote domestic efficiency:

New tariff policy (Nov.1 2006)

- 10% temporary export tax on wood flooring, disposable chopsticks and wood chips

Cancelled or lowered export tax rebates (Sept. 15 2006)

- Reduction to 11% for wood packaging, wood doors & windows, plywood, laminated wood floorings
- Cancellation for charcoal, railway sleepers, wooden tools

5% consumption tax: solidwood floorings & disposable chopsticks (Mar 2006))

Green procurement policy- eco-labeling (Jan. 2007)

- The central & provincial governments are asked to give priority to products proven to be environment-friendly
- Standards target protection of consumers' health, environment, energy & efficient, but nothing on legality or sustainability of wood source

Government Dialogues

- Signed Bali and St. Petersburg FLEG Declarations
- Bilateral MoUs with Russia, Indonesia and Myanmar
- State Forest Administration (SFA) has a new Trade Watch and Information Exchange Program
- Ministry of Commerce has up a task force working on “Sustainable Development: China and Global Markets”
- SFA plans to host an international conference on illegal logging in Summer 2007
- *In general: no concrete actions taken yet, not clear which ministry is the leading coordination body for the issue*



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TRENDS



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