News Release

China's Wood Products Industry Increasingly Integrating Plantations into Operations – Highlighted at Qingdao Conference

Delegates Discuss China's Growth Prospects & Constraints at WOOD MARKETS Group's 4th China Summit Conference

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Vancouver, BC — China continues to be the world's wood products "engine of production" and will further utilize domestic plantation timber to maintain its position as the largest exporter of finished wood products on the globe. While the Chinese production and export outlook is relatively positive, there are, however, a number of new developments that could limit the continuation of China's spectacular growth rates. These were just some of the themes and topics addressed at International WOOD MARKETS Group's fourth annual **China International Wood Products Summit.**

A mix of high profile Chinese and international speakers outlined a variety of relevant and timely topics to make the recently completed Summit one of the most successful conferences ever. The international and Chinese delegates and speakers combined over 30 table-top displays from a variety of Chinese manufacturers to profile the fact that China's wood products industry continues to evolve not just in volume, but also in technology and quality. *"China's export growth in wood products will be tied to continued industry modernization and in some sectors is already shifting to allow for the utilization of alternative raw materials,"* said Russell Taylor, President. *"In particular, rising log costs from Russia are being offset partially by the utilization of domestic plantation species and new technology – a crucial balancing act that is still allowing China to maintain its competitiveness in most (but not all) products."*

The **China International Wood Products Summit** was held in Qingdao, an area featuring high-quality wooden door production and offering raw material from nearby plantations. *"Part of the Chinese government's new strategy is to basically become self-sufficient in wood fibre by 2020,"* explained Mike Jahraus, Vice-President. *"A host of new Government policies have just been announced which are intended to kick-start the large-scale and rapid expansion of fast-growing, high-yield plantations in China."*

This reality was brought home by IMWG's Gerry Van Leeuwen, Vice-President, who had just completed a one week visit in Russia - China's major log supplier. *"The cost implications of the rising log export duty schedule in Russia are increasingly having an impact on China,"* explained Mr. Van Leeuwen, *"as almost 70% of China's 32 million m3 of log imports are currently sourced from Russia. This is pushing Chinese manufacturers to explore how plantation wood can be integrated (with technology) into their operations, to replace more expensive imported wood."*

Below are some of the key themes discussed at the conference.

1. Wood Import Trends

Major domestic and import trends were discussed by some of the conference presenters, included the following highlights on China's timber situation:

- Domestic supply has failed to keep-up with the growing demand for wood in China, resulting in China's wood products industry relying heavily on imports to fill the gap.
- Chinese imports of forest products and secondary fiber soared from 40 million m3 in 1990 to a massive 142 million m3 (roundwood equivalent) in 2006.
- Plantation wood is rapidly growing in significance - by 2010, 70% of domestic commercial-purpose timber will be supplied by Chinese plantations.
- In China, log demand greatly exceeds supply – and will continue to do so for some time, especially for larger diameter, older growth logs that are required for structural, specialty or decorative uses.

2. Current Chinese Industry Situation

Chinese wood product exporters, which have been heavily reliant on the U.S. market, are quickly diversifying both in market and product in an attempt to maintain their rapid growth. However, rising costs (raw material, energy and freight), currency appreciation, the decline/loss of VAT rebates and lower prices and volumes are biting into Chinese manufacturing margins. Where it was reported that typical Chinese wood products manufacturing operating margins were in the 20-30% range in 2003, these have now been squeezed to 10% or less despite significant market diversification efforts into markets such as the EU, SE Asia and the Middle East.

3. Government Policy Issues

The fast growing trade surplus (US$177 million in 2006 and US$112.5 billion in the first six months of 2007) has become a huge source of trade friction for China with the rest of the world. The Chinese government, in an attempt to address foreign government concerns, has introduced new export policies directed at VAT export tax rebates, export duties and the processing trade. Combined, these measures appear that they will significantly impact on the structure of wood product exports.

4. Chinese Exports

Wood products export trends from China included some of the following amazing highlights:

- China's wood products exports have grown at a 40% annual growth rate by value since 2003 and increased by 44% in the first half of 2007.
- Wooden furniture and wood-based panels, comprising nearly 70% of total export value, were the major product exports.
- Plywood exports increased by 59% in value in 2006 compared with 2005 (but slowed to 21% growth in the first half of 2007).
- MDF exports accounted for 8.5% of the total exports by volume in 2006 and enjoyed an increase of 52% over the previous year, with exports growing by a whopping 137% in the first half of 2007.

5. Plantations

To address the growing and massive timber supply gap in China, numerous Chinese government policies and incentives have recently been enacted to increase the area and volume of plantations. The focus is on the expansion of fast-growing, high yield (FGHY) plantations to provide a whopping 133 million m3 of incremental timber per year by the 2020 which, in turn, could support 21.5 million m3 of wood-based panel production and 15.8 million m3 of large diameter timber consumption.

Other topics addressed at the conference included: China's economy and housing trends; offshore trade policy; Russian log export and supply trends; and the plywood and moulding industry and export trends.

Note: Complete proceedings of the 2007 China International Wood Products Summit are now available for purchase on CD or PDF format. Please contact Barb at info@woodmarkets.com

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