Value-Added Wood Products Markets, 2004-2005

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Indufor => Savcor Indufor

- Savcor Indufor, formerly Indufor, is a Finnish consulting company and part of the Finnish Savcor Group
- Savcor Indufor assists clients in the private and public sectors in finding feasible options for the development of sustainable forestry, forest industries and environmental management
- Consulting services are based on the best possible knowledge, thorough analysis of available information, and a cost-efficient project management system

- Our experience in forest certification is uniquely profound with more than 60 assignments worldwide over the past decade.
- Availability of certified wood, chain-of-custody, product labeling rights and systems for tracking and verifying the legal and sustainable origin of wood are in our immediate focus.
- We develop new innovative products and services on these fields, and advise e.g. the European Commission on EU-FLEGT Initiative.

Certification Monitor

- Latest information on certified forest areas and certification systems
- Certified roundwood supply potential estimates for regions per system (m^3/a)
- CoC certificate holders
- Latest news and insights into certification development
- Special reports on countries and markets based on Savcor Indufor's certification database

CERTIFICATION MONITOR

Certification Monitor is a quarterly published report on latest development in forest certification. It is the number one source of information for following certified forest areas all over the world. Certified roundwood supply potential estimates are updated regularly and published in the Certification Monitor. Chain of custody certificate holders are reported by types of holders. Special reports on markets and sectors are included with every issue of the Certification Monitor.

First issue will be published in January 2006.

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:: Special reports on countries and markets based on Savcor Indufor's GIS based certification database

Savcor Indufor's GIS-based certification database can be used to produce detailed reports on e.g. CoC certificate holders, certified forest areas and roundwood supply potential. Tailor made studies are carried out on request.

Certification Monitor includes key information on certification development.

Sample illustration: FSC in Austria.

Savcor Indufor is an internationally recognized consulting company. The company has closely monitored and developed forest certification as a tool for sustainability since the early 1990s. Our experience in forest certification is uniquely profound with more than 60 assignments worldwide over the past decade.

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Contents

- Overview of market developments
  - Furniture
  - Builders joinery and carpentry
  - Profiled wood
  - Engineered wood products
- Market trends: Deepened international division of labor
- Association's policies
- Certification effects on markets

Trade Flow Analysis

- Scope of analysis is narrowed to largest trade partners
  - Importers
    - United States
    - Germany
    - France
    - United Kingdom
    - Japan
  - Exporting regions

- All monetary figures are values in US dollars
  - Exchange rates (devaluation of US$) emphasize developments, in Euros the changes are more moderate

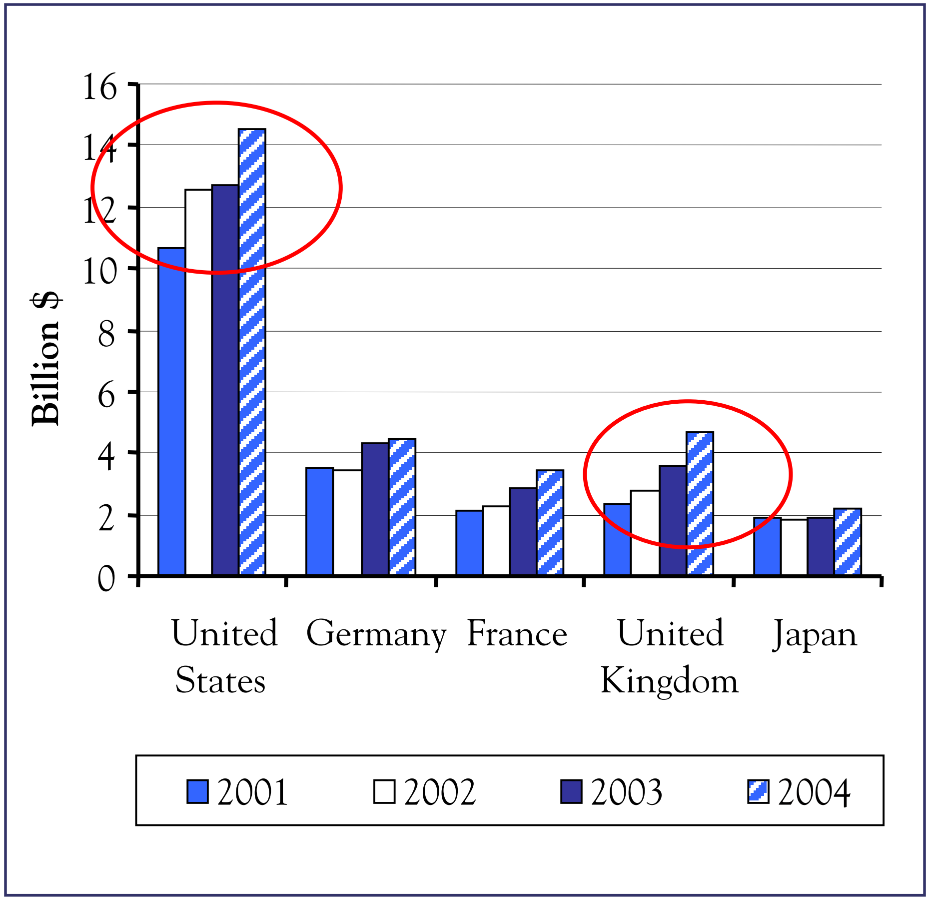
Overview of Market Developments

- VAWP's demand driven mainly by construction activity and home decoration trends
- Furniture markets are experiencing globalization's effects
- Builder's joinery and carpentry (BJC)
  - US demand lively due to strong housing construction
  - European demand fueled by renovation, maintenance and improvement (RMI) sector
- Engineered wood product's (EWP's) demand is traditionally linked to housing demand
  - North American demand is good and growing
  - European and Japanese demand growth is stronger

Furniture Imports

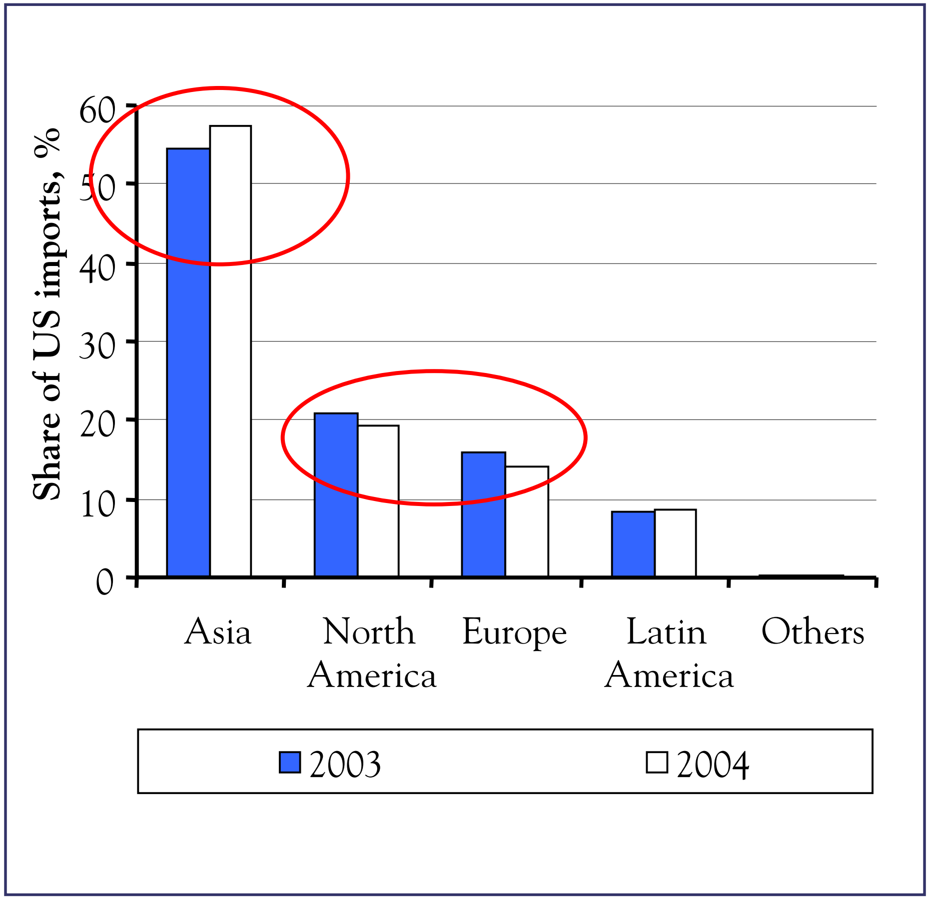
- Value of trade in 2004 was $29.2 billion
  - Growth in value was 15%
- US imports grew by 14.6% ($1.8 billion)
- UK imports grew by 30%
- French imports up by 20%
- Japanese imports grew by 15%
- German imports remained flat (decrease in euro values)

- Bedroom furniture is the single fastest growing import item



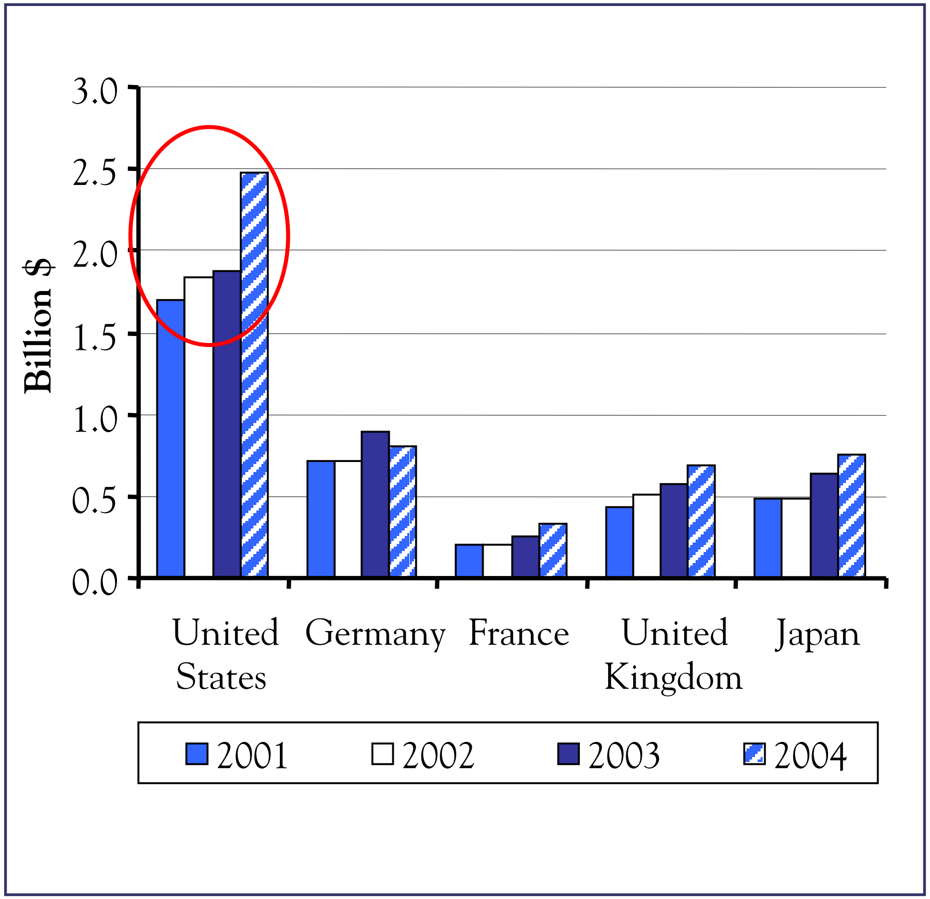
Furniture Imports

- Asian imports are competing heavily with Canadian and European (Italian) imports on the US market
- United States imposed antidumping duties on Chinese furniture imports in mid 2004
  - Vietnamese and Malaysian importers gained market share temporarily
  - Lower than anticipated duties came into force in late 2004
  - Chinese imports recovered their position



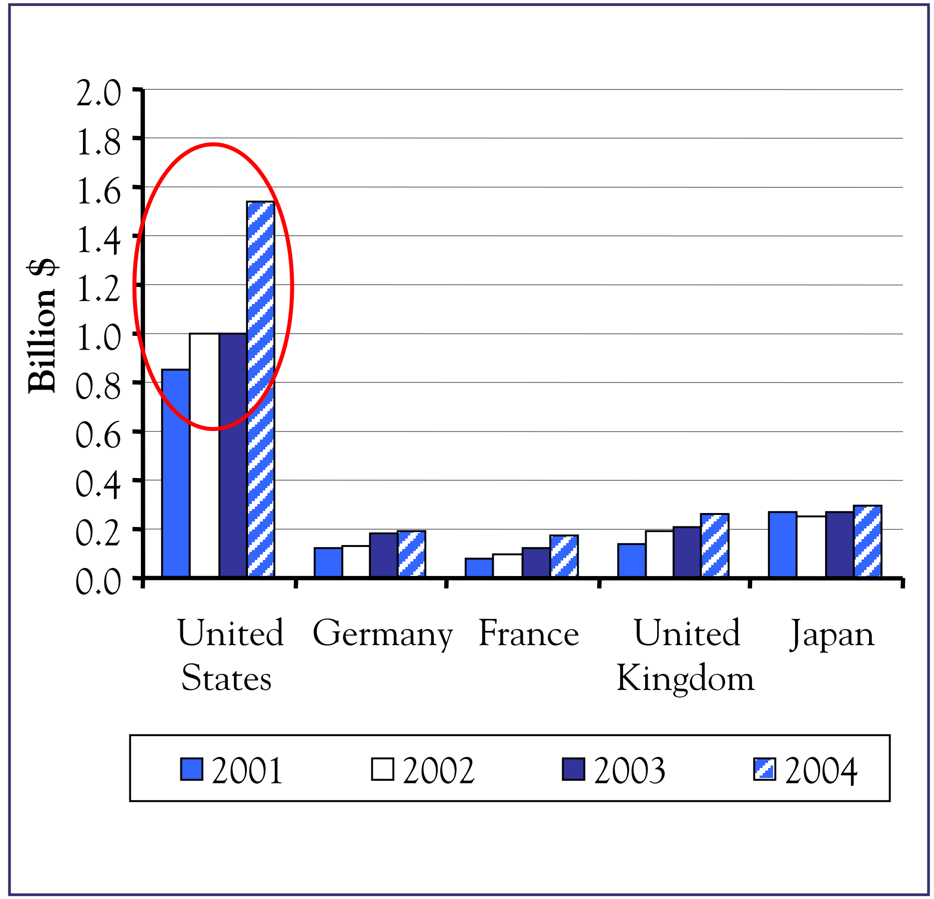
BJC Imports

- Trade of BJC reached $5.1 billion in 2004
  - 19% growth from year 2003 ($800 million)
- US imports $600 million up (32%)
- Others markets, excluding Germany, followed the same trend
  - UK and Japanese imports reaching the German level
  - Markets are small compared to US
- In general, BJC major trade flows continue intra-regional



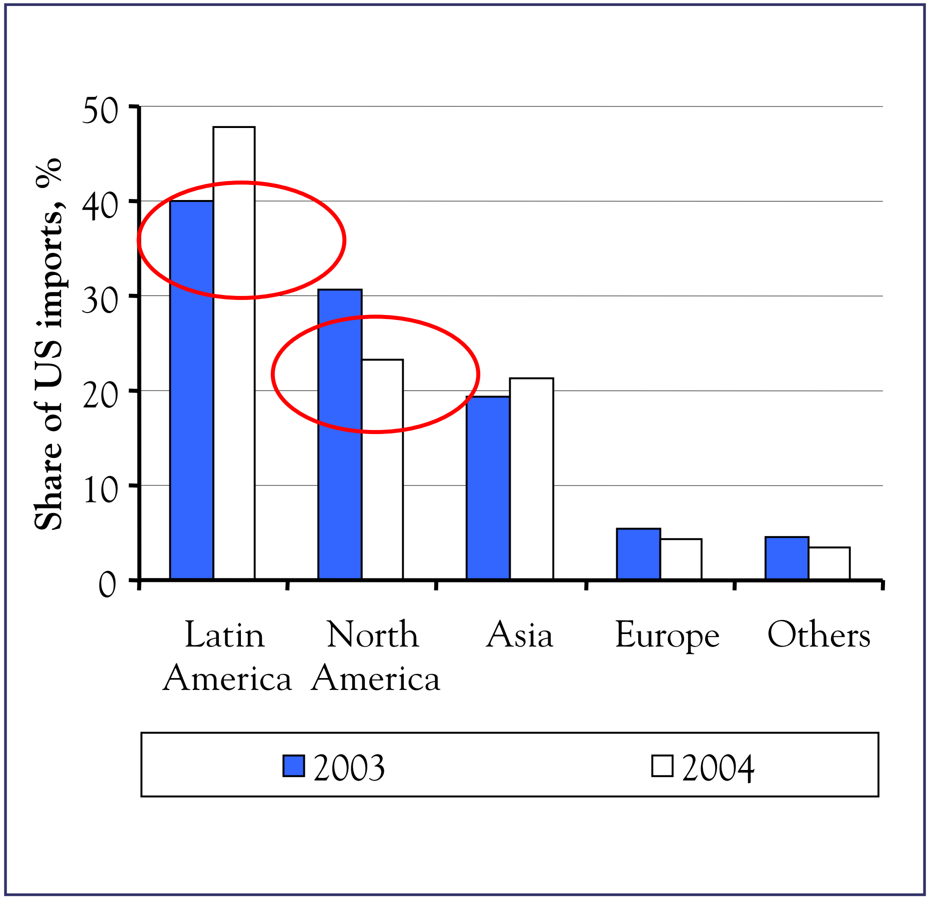
Profiled Wood Imports

- Total value of imports was $2.4 billion in 2004
  - Impressive 36% growth in value
- US imports grew by 50%, reaching $1.5 billion value, more than other four countries in total
- Other import markets grew moderately



Profiled Wood Imports

- Latin American exporters increased their share of the US market to 48% (40% in 2003)
- Canadians exporters have been losing their market share, currently 23% (31% in 2003)
- Asians have ”only” 21 % (19% in 2003)



Engineered Wood Products

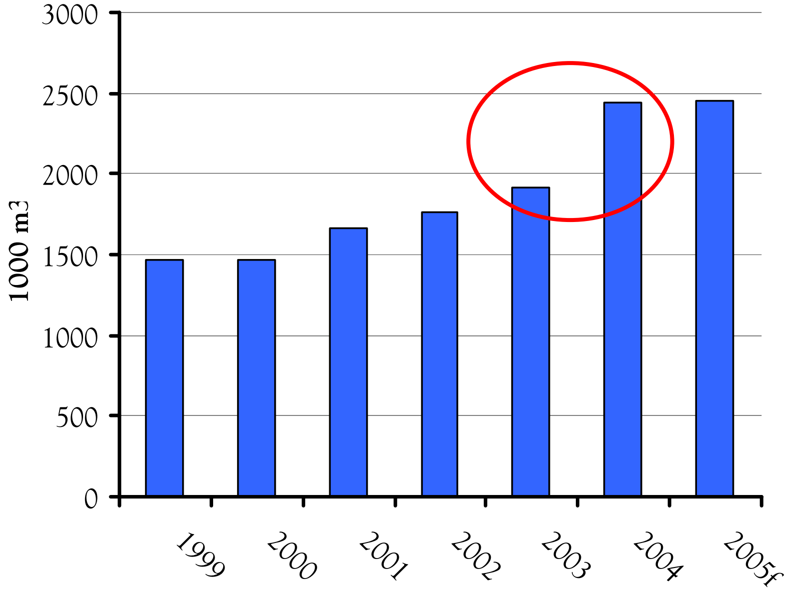
- Only North American data available for the UNECE region
  - APA anticipates harmonized trade codes agreement for 2007
  - This would enable better tracking of EWPs' trade flows
- EWP's are mainly North American products, wood-based construction being the largest consumer
  - Furniture industry starting to use EWPs also
- Japan becoming active consumer and producer of EWPs
- Some importers exist already, though quantities remain insignificant or low
- Product innovation enables more challenging uses of wood and better substitution, for ex. competing with steel products
  - LVL Tension lams, etc.

    (Glulam beams laminated with LVL or fiber-reinforced polymer)

Engineered Wood Products - LVL

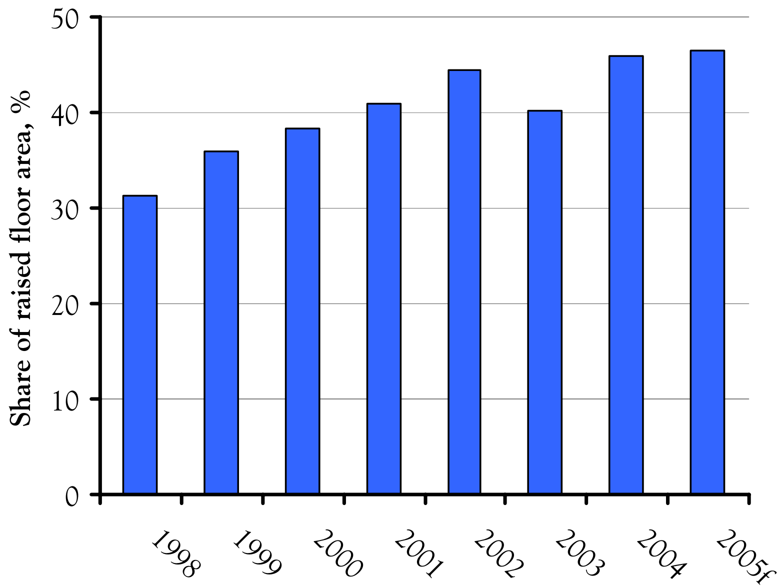
- LVL production jumped in 2004 due to huge housing demand
  - Architects and designers are increasingly choosing LVL

- Better returns on beams and headers than on I-beams
  - 57% used on beams and headers
  - 37% used on I-beam flanges
  - Rest used on industrial uses and rim boards



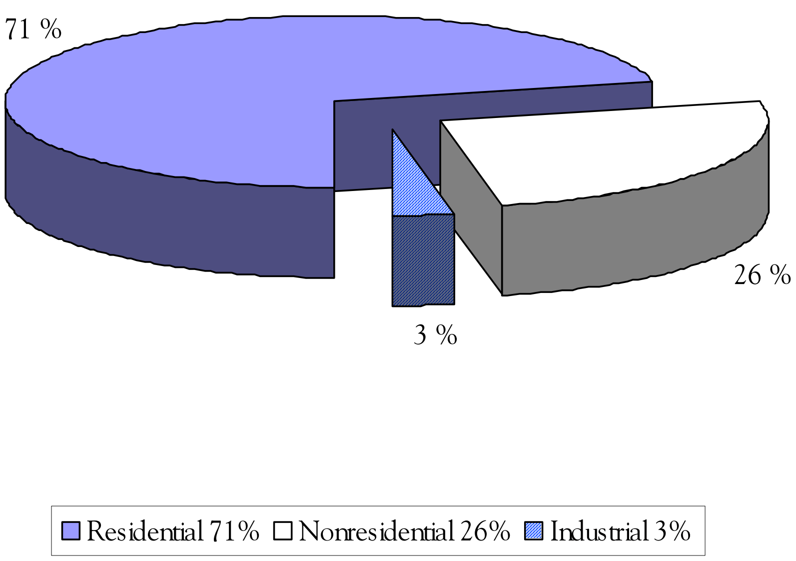
Engineered Wood Products – I-beams

- I-beams are gaining market share among construction materials
- Almost 50% of raised floors are built on I-beams and already less than 40% on solid wood
- LVL flanges are being substituted by lumber and LSL (laminated strand lumber)
    - 74% of flanges were LVL in 1997 and in 2004 only 54%

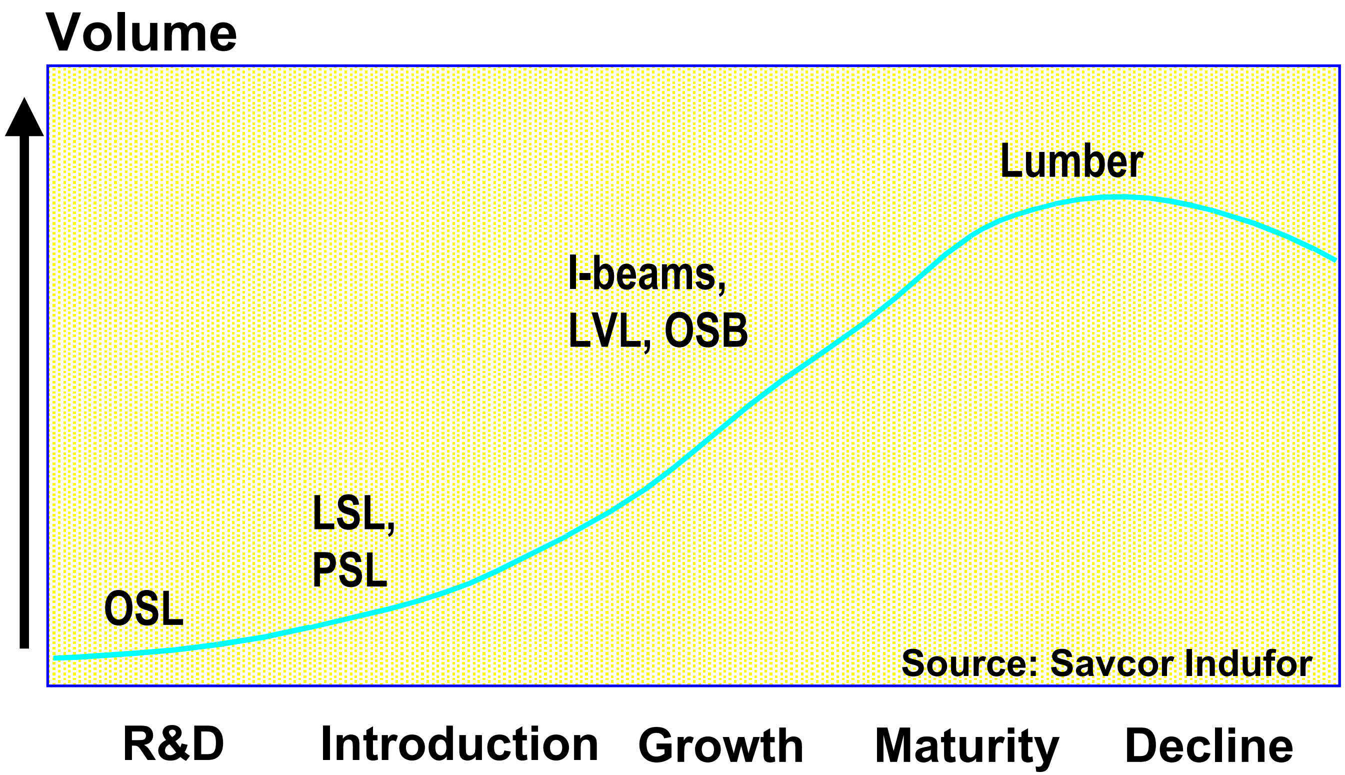


Engineered Wood Products - Glulam

- Glulam reached a record production in 2004 (618 000 m³)
- Residential housing construction is by far the largest glulam user
- Imports are expected to increase, currently less than 10% of demand
- New generarion of glulam beams is being introduced, LVL or fibre-reinforced polymer lamination increases strength up to 40%



Life Cycle of Engineered Wood Products



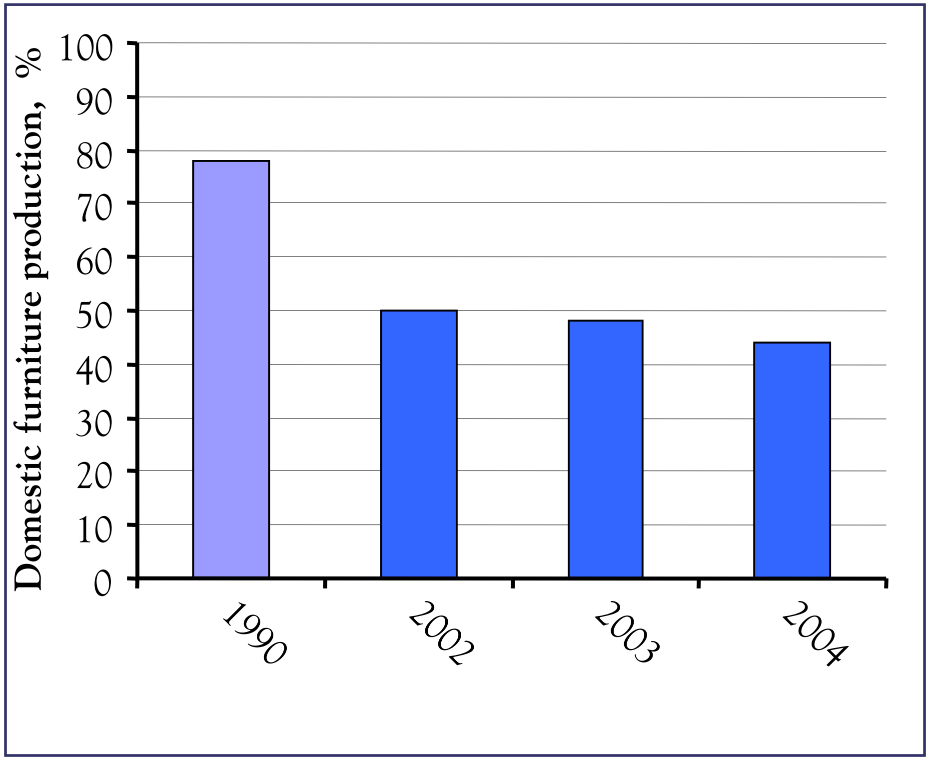
International division of labor deepens

- Domestic companies are losing market shares, while ...

... production is increasingly being outsourced

  - Multinational companies make furniture of imported rawmaterials, designs and brands in China
  - Returns go to companies, only manufacturing is ”made in China”

- Outsourcing is now moving to high end products
- US China antidumping case



International division of labor deepens

- Europe and Canada are expected to see the same phenomenon
- Large deficit in extra-EU trade flows of furniture
  - EU imports exceed exports by 3.6 billion euros already
  - Early signs of inter-regional furniture trade replacing traditional intra-regional trade in Europe
- BJC product's globalization is slower and the level is lower, intra-regional trade dominates
  - Nature of the products is different
- Low cost producers in every market sector are putting severe price pressure on traditional producers
  - Radical strategic changes may be necessary
  - Taking full account of trends in global markets

    (TC 2004)

Association's Policies

- Trade associations are engaging with Governments and other stakeholders, e.g. universities and research institutions, to develop forward-looking strategies
  - Europe: CEI-Bois Roadmap 2010
  - North America: Wood Promotion Network

- Objectives are to produce and market effectively VAWPs

  -> Maintain demand for primary wood products

  -> Maintain value in the region's forests

  -> Enable sustainable development in the UNECE region

Certification Effects on Markets

- Furniture markets are reacting to certification demand / supply
  - Garden furniture is sold under certification labels by many retailers
  - Other furniture market is preparing for certification
- Construction material markets react slower to certification than consumer product markets
- Public purchasing policies may change this trend quickly

- **Certification can be used to complete a message of sustainable actions**

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