Report on 5th China Global Wood Trade Conference

Tuesday 15 September 2015

On Tuesday 15 September 2015, I attended the 5th China Global Wood Trade Conference in Shanghai. Here's the take-out messages with respect to New Zealand's wood products interests:

1/. With growth in China's economy moving to a "new normal" it means China's massive and rapid construction and infrastructure development phase, including the housing shortage, is coming to an end.

The relative slowdown is apparent for all commodities associated with China's industrialisation and urbanisation. For NZ log exports the effect is a drop off in demand for construction materials, and the drop in demand for the associated grades of wood products could be anticipated to endure over a sustained period. Reduced economic activity generally is also affecting the demand for packaging materials, and packaging material (including for example pallets and wooden crates and boxes) is another substantial end-use for exports of New Zealand logs.

There's no upbeat story for log grades servicing the construction, infrastructure and packaging markets. Some who I spoke with at the conference could see no upturn within the next 12 months for softwood log exports in the infrastructure, construction and packaging markets. There is a structural change taking place in the market - towards developing domestic consumption (long-term); and increasing costs in China causing a slowdown in imports and exports.

What could soften the blow for New Zealand in the Chinese market is the re-emergence of demand from US housing starts. This will divert Canadian supply to the US, and US supply to its domestic demand. Other points of interest:

- Canada log exports are restricted. Logs must be offered to domestic mills first, which means log exporters can't enter long-term contracts and while domestic log prices are relatively low and stable the export prices are volatile. It's estimated there are 5-7 million cubic metres available for log export not entering the export market, because of Canada's log export restrictions.
- Foreign exchange, with the USD rising against all/most currencies this disadvantages US exports to China.

- With a pick-up in the US for new housing and residential construction, US demand is forecast as 50 million cubic metres over the next 5 years. We were told that 60% of all USA wood use is related to housing.
- There is growth in Russian sawn timber exports to China, because of weakened demand in Middle East and North Africa region (MENA) and Commonwealth of Independent States (CIS) markets. Russia is modernising its' sawmills and encouraging Chinese investment in Russia.

2/. The future for demand for wood products in China is interior design, wooden decoration, furniture and wooden building construction.
New products are shaping this market – CLT (multi story wooden structures), LVL, HDF (furniture – e.g. IKEA). There's expected to be significant increased demand in these areas, an important development for companies.

Wooden doors for example – pre 1990 there was no interior wooden door industry in China, in the interior wooden door market is now estimated at 300 billion RMB (approx. NZD80 billion) per year. While the size of the market sounds a little high it's probably not far off the mark – as a quick Google search suggests the global demand for windows and doors is USD175 billion. Regardless, there's clearly a substantial market for interior doors in China.

Currently, the general breakdown is that softwoods are used in infrastructure and hardwoods are used in "civil" use, for example furniture, doors and home decoration. Apparently the demand in home decoration is booming – and with increasing affluence people are expected to redecorate their apartments more frequently, every 10 years. Even in an economic slowdown the investment required to redecorate the existing stock of real estate is huge. It's not necessary good news for NZ radiata pine, unless it's possible to position NZ wood products in the interior design and apartment refurbishment markets generally.

3/. Wooden building construction
In terms of wooden building construction a new policy on wooden structures has been released, in August 2015. I'll be following up to get a copy of the new policy. The next step is to develop codes, standards and guidelines under the new wooden building construction policy.

While furniture is currently the biggest consumer of wood, and expected to increase with increased living standards, there is potentially substantial demand for softwood products in the wooden building construction market. The Chinese government will invest in upgrading slum areas and is advocating ambitious plans for the development of wooden structures.

I'm not aware of NZ industry engaging with China on the wooden building construction policy (codes, standards or guidelines). However, it is apparent that our competitors in the softwood business are (Europe, USA and Canada).

The future (partly) is wooden structures - a major new opportunity. Taking advantage of this opportunity is going to require some upfront investment from the New Zealand industry. Specifically, industry needs to engage with the relevant Chinese agencies and industry associations that will develop the codes, standards and guidelines. The purpose of NZ industry engagement would be to help ensure that the standards China develops will be consistent with the properties and qualities of constructing wooden structures with products made from NZ radiata pine. The engagement from industry needs to start happening now.

4/. NZ representation at the China Global Wood Conference

We understand the China Timber and Wood Products Distribution Association (CTWPDA) is the most important industry association in China related to wood and timber products. The association is a bridge between private sector and central government policy making agencies. The Association has 3,000 members which are engaged in timber importing, exporting and wholesaling as well as manufacturing, marketing and exporting of wood products (i.e. wooden flooring, wooden doors and windows, wood-based panels, structural engineered wood, wood veneer, preservative treated wood).

The 5th China Global Wood Trade Conference was a little odd in the representation – with heavy representation from Finland and Latvia – what also struck me was that while NZ frequently appeared in presentations (softwood logs and sawn timber) there was no NZ-based industry representation at the conference. Aside from me, the only other NZ representative was Stephan Mangaud, China Supply Chain Manager, TPT Forests Limited Shanghai Office. The lack representation from NZ industry was notable. Next year the conference will be in Qingdao.

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