



Outlook for Global Raw Material Supplies for China's Wood Products Industry: Not an Unlimited Resource

PELICE

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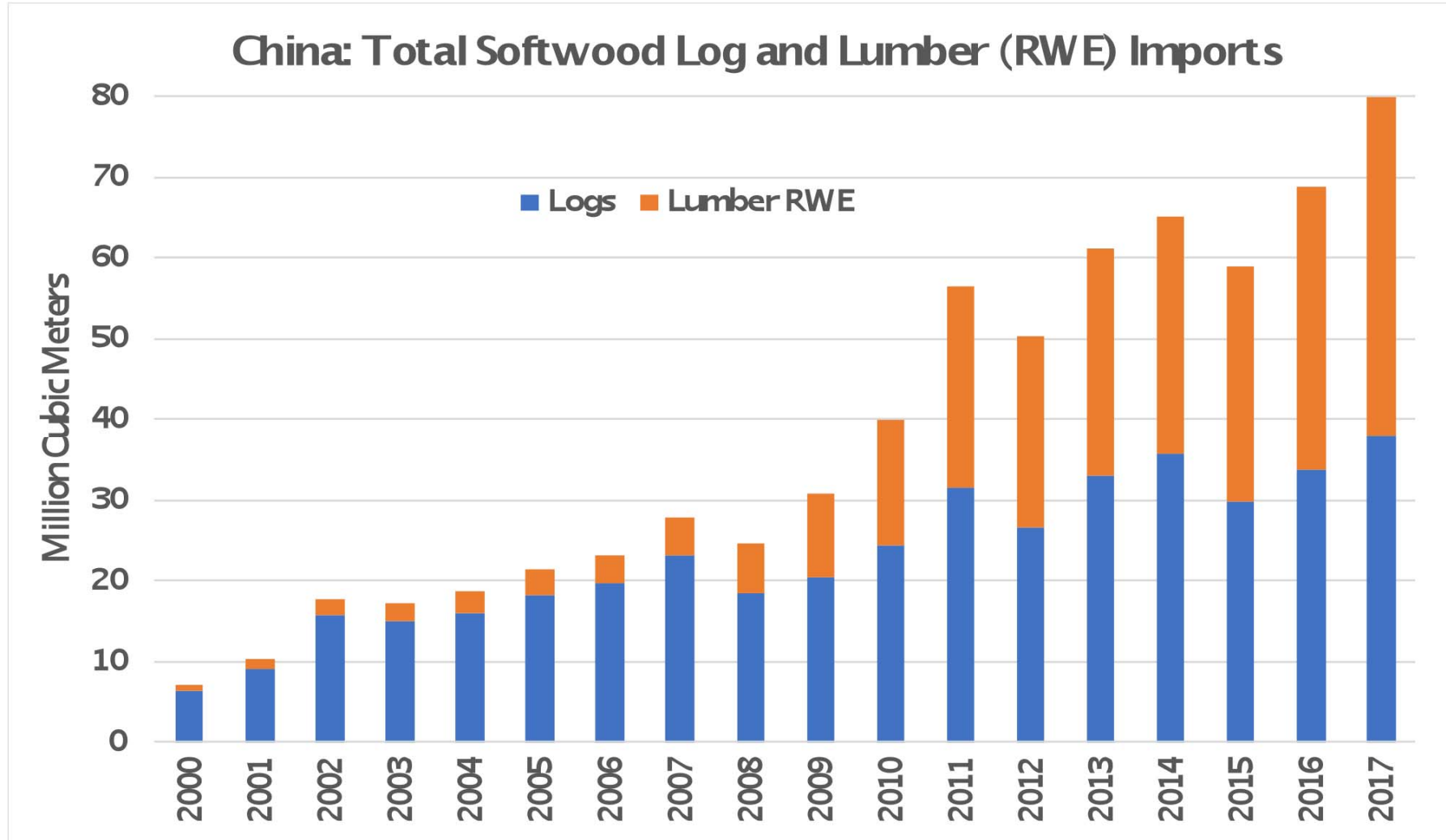
Agenda

- China's imports of softwood logs and lumber: historical summary and RISI's new forecast, outlook by supply source
- China's imports of hardwood logs and lumber by major type and supply source

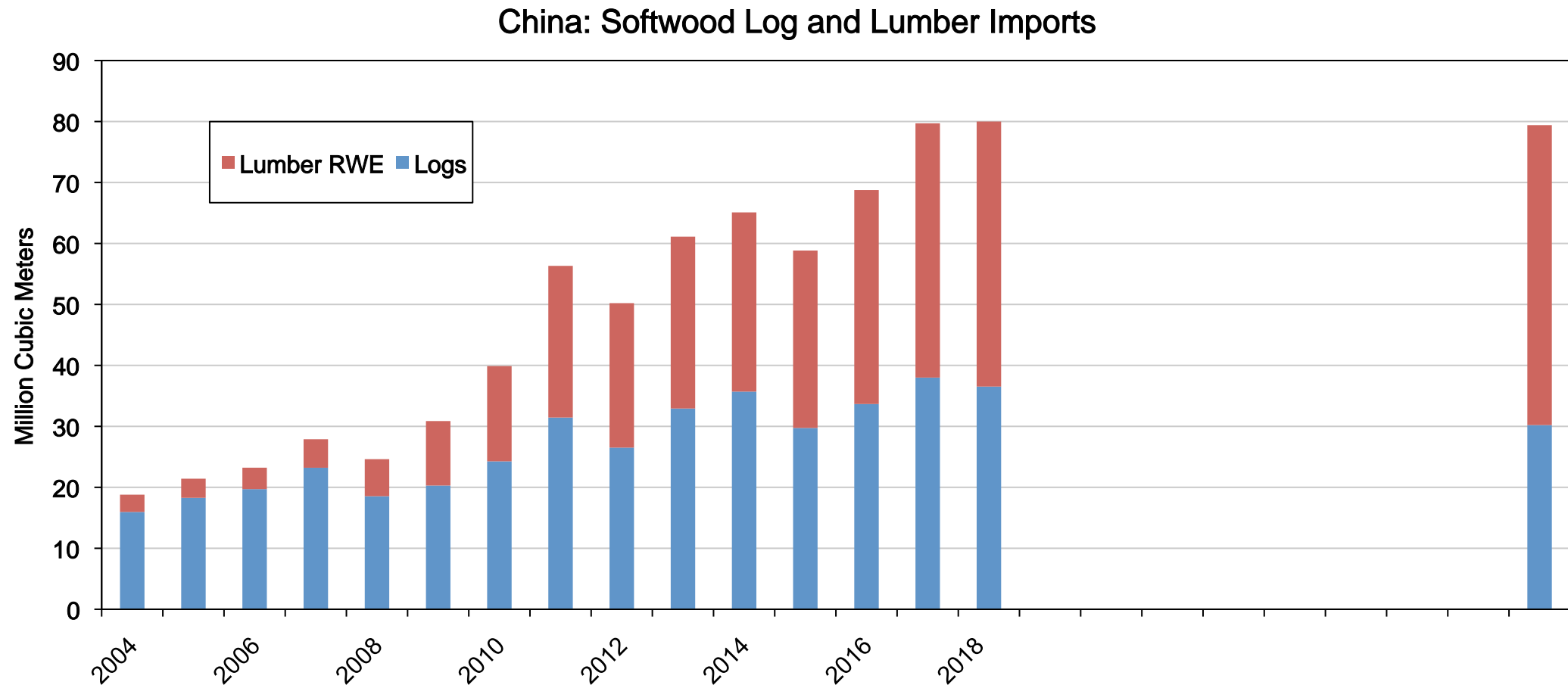
Over the past 20 years, China's total need for imported wood has grown 14% annually, with the pulp and paper sector accounting for half of demand



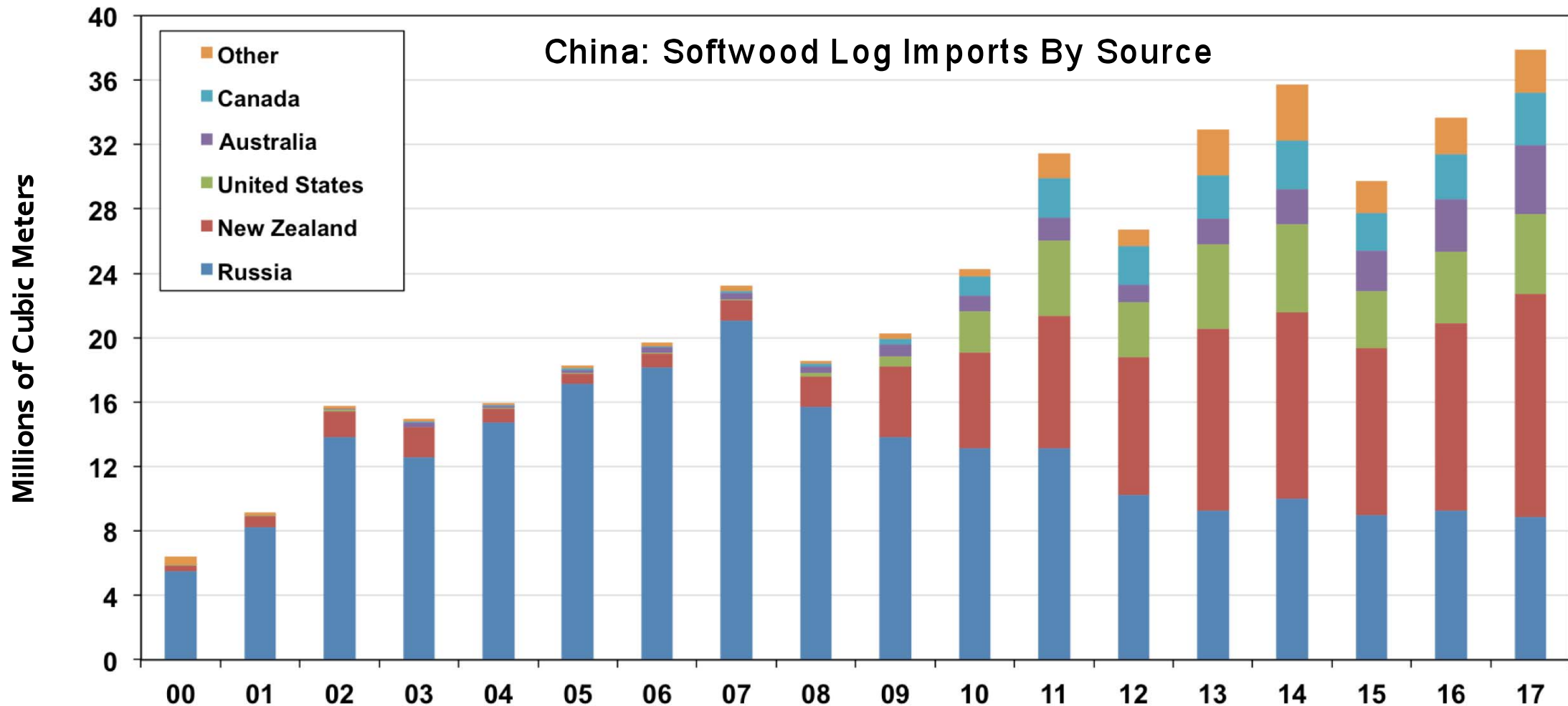
Since 2000, imports of softwood logs have grown 11% (CAGR) while softwood lumber imports have increased 26%



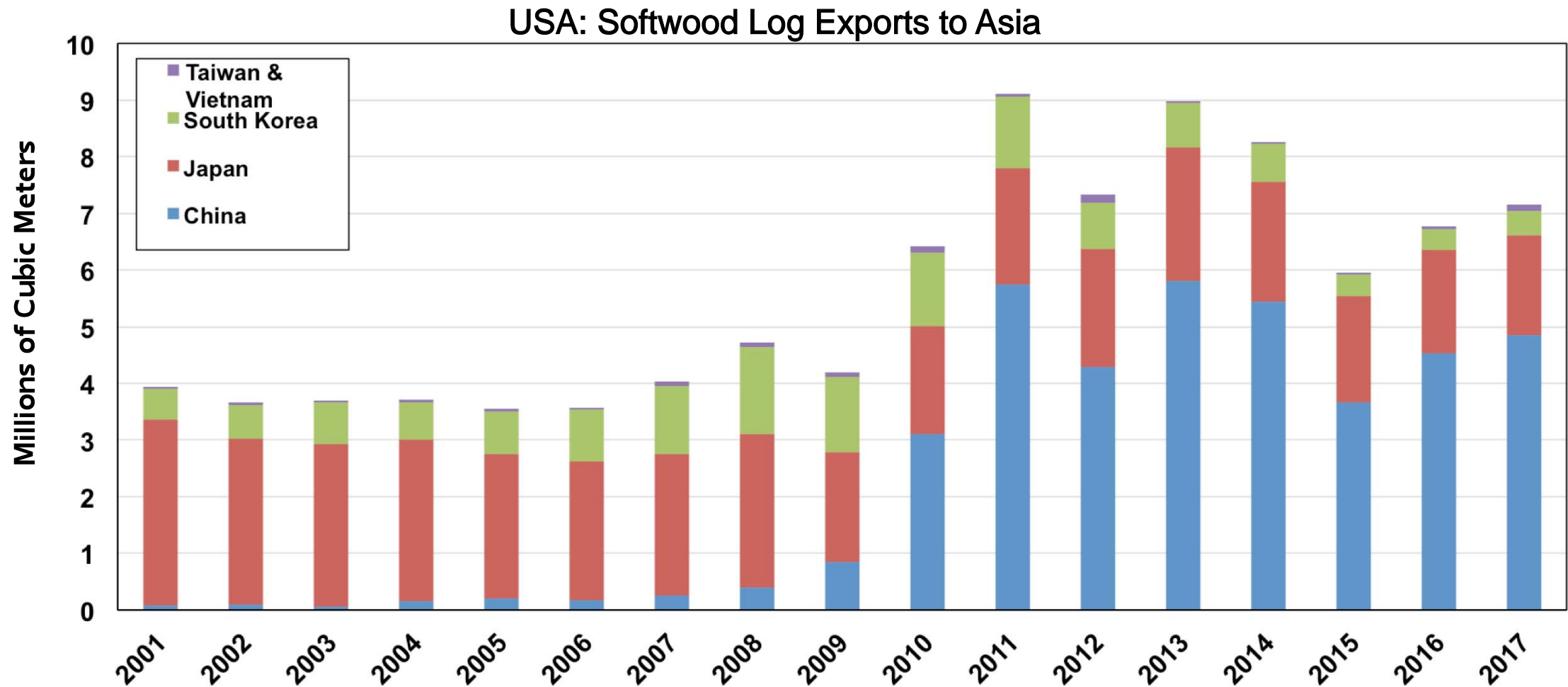
We are projecting that Chinese softwood log imports will decline 21% over the next decade, but softwood lumber imports will increase 28%



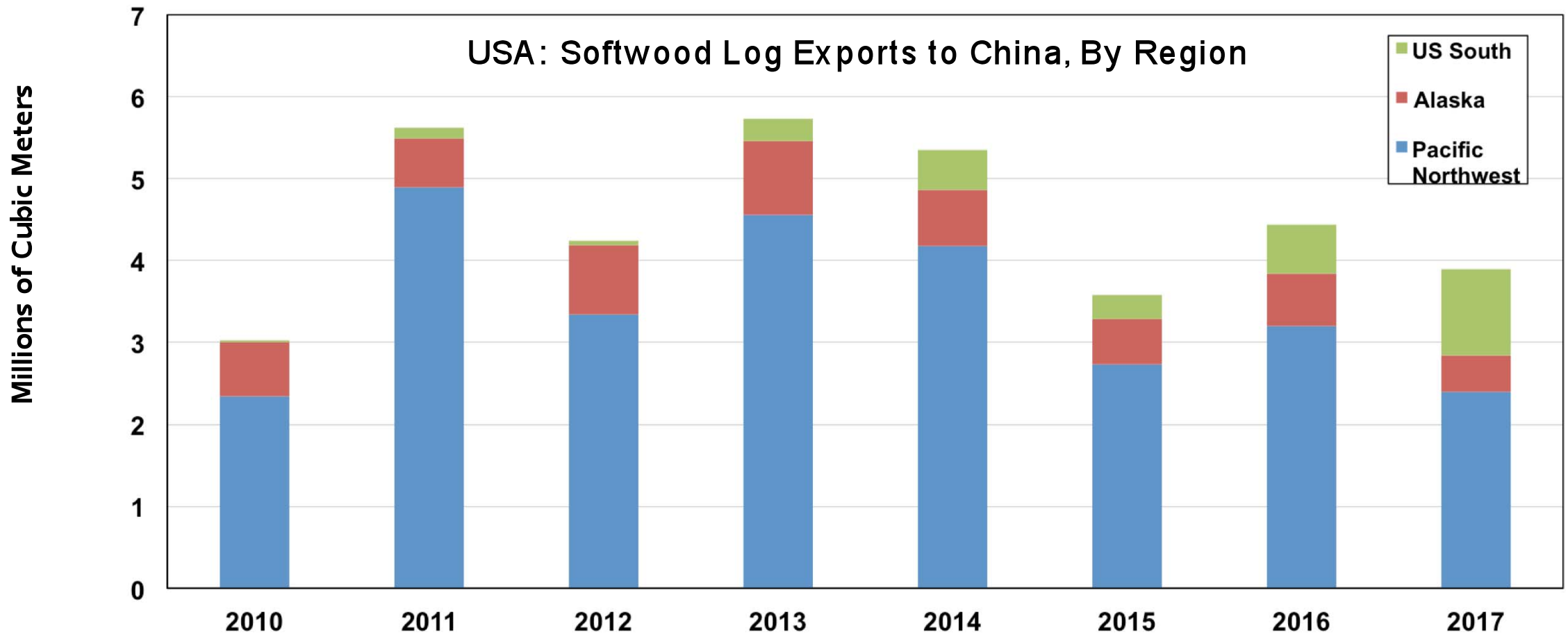
The Russian log export tax shifted exports to more lumber, opening the door for other log suppliers



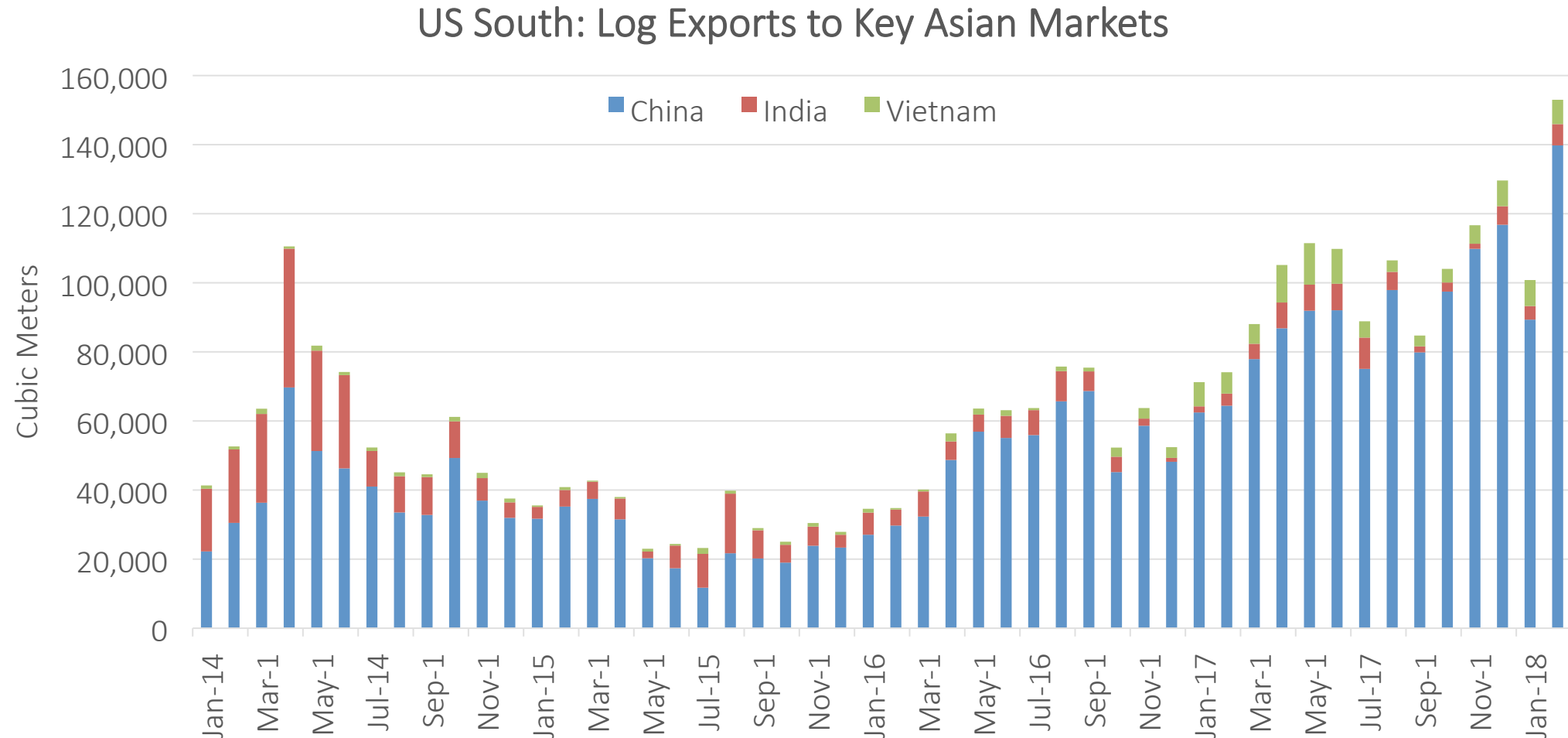
US softwood log exports to Asia are down 20% from 2013, with stronger domestic demand in US



The big surprise in US log shipments to China has been a surge in US SYP, which accounted for 22% of the total in 2017, and in first two months of 2018 made up over 37% of total

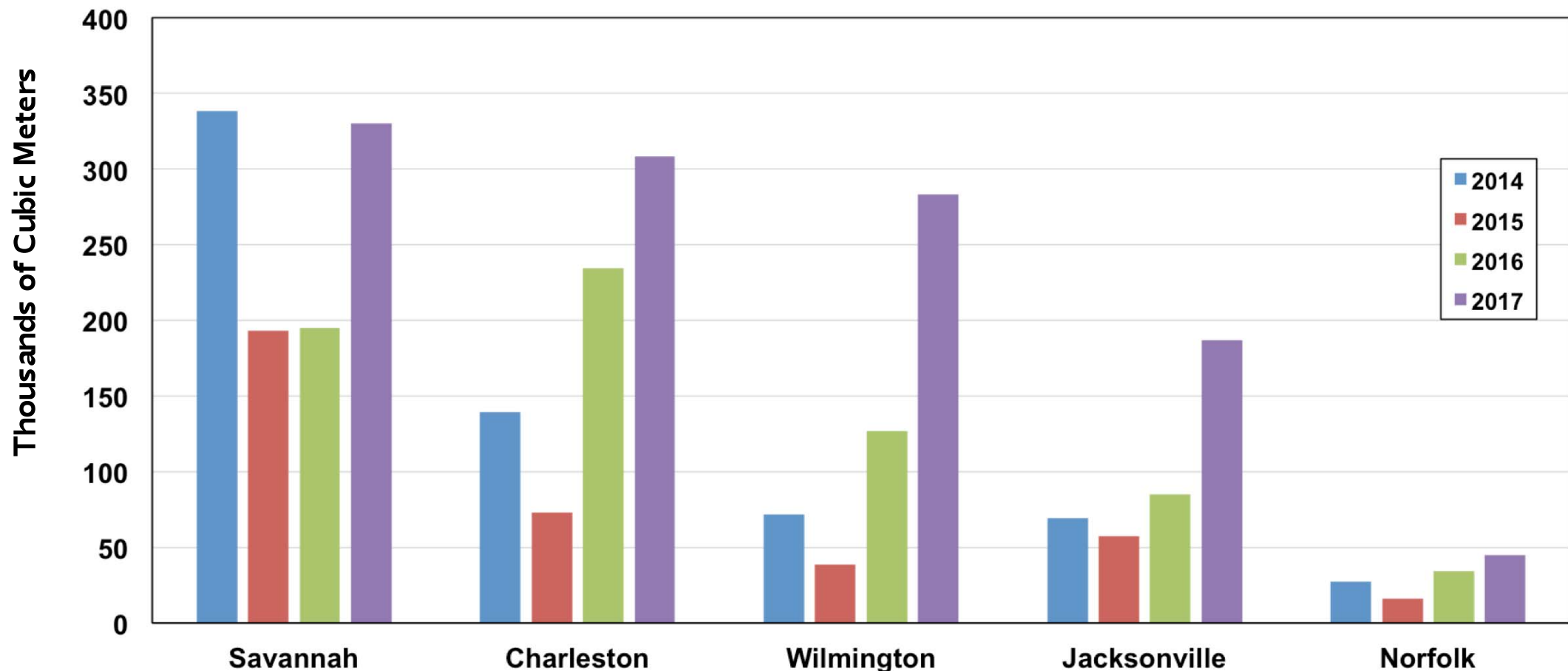


All log exports from the US South are via container; to date this freight has been less expensive, and less risky than bulk shipping

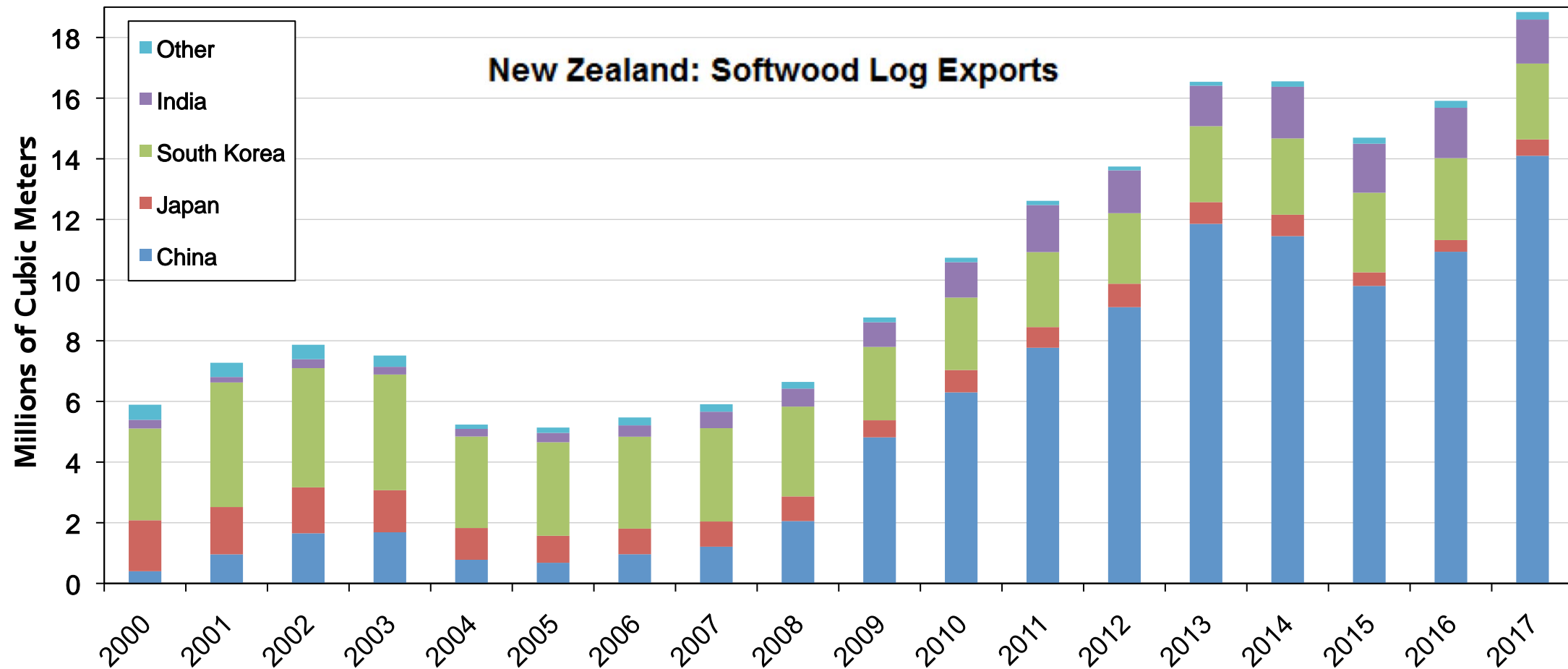


Almost all of the log exports from US South are from a narrow band close to the Southeast Coast, but shipments from the Gulf started up again in mid-2017

US South: Log Exports to Asia by Port



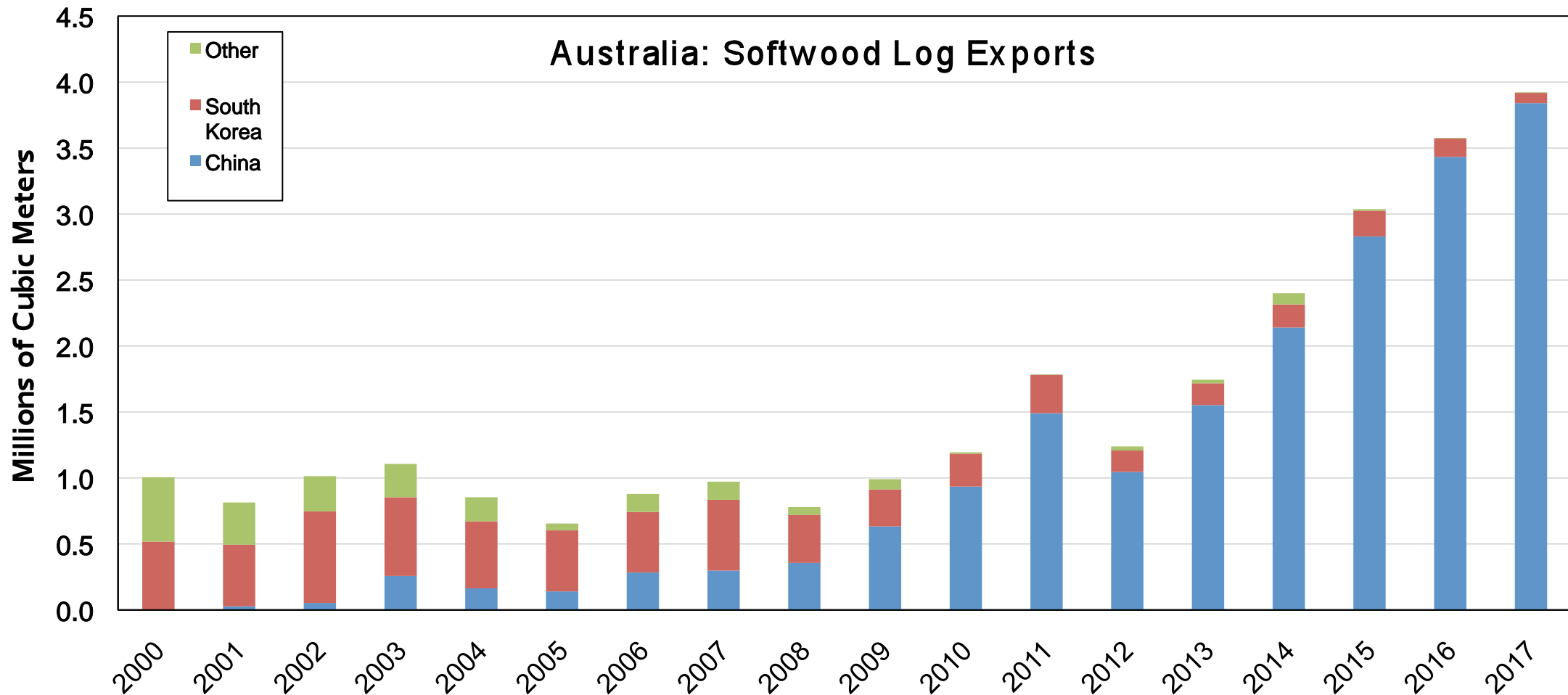
New Zealand log exports hit a record 18.8 million m³ in 2017, but future growth will be tougher due to history of plantation establishment and accelerated harvesting by TIMOs



New Zealand's log exports to China: Limiting Factors

- Increasing demand from other markets, most notably India
- Rising cost structure in New Zealand for harvest, transport, port development
- Most logs to China are pine sawlogs, only about 8% are “pulplogs”, which are peeled in China for core veneer
- Age class of plantations: modest expansion in harvest possible over next 3-5 years, but then a possible small decline in available log supplies
- Government intervention: In the recent election in New Zealand in September 2017, the New Zealand First Party promised to put some constraints on log exports so as to foster more wood processing in the country. Despite the fact that it was the support of the NZ First Party which allowed the Labour Party to form a coalition government, since the election the government has taken no steps to restrict log exports, and most industry experts there do not think this is likely. However, it remains a threat to the log exporting sector.

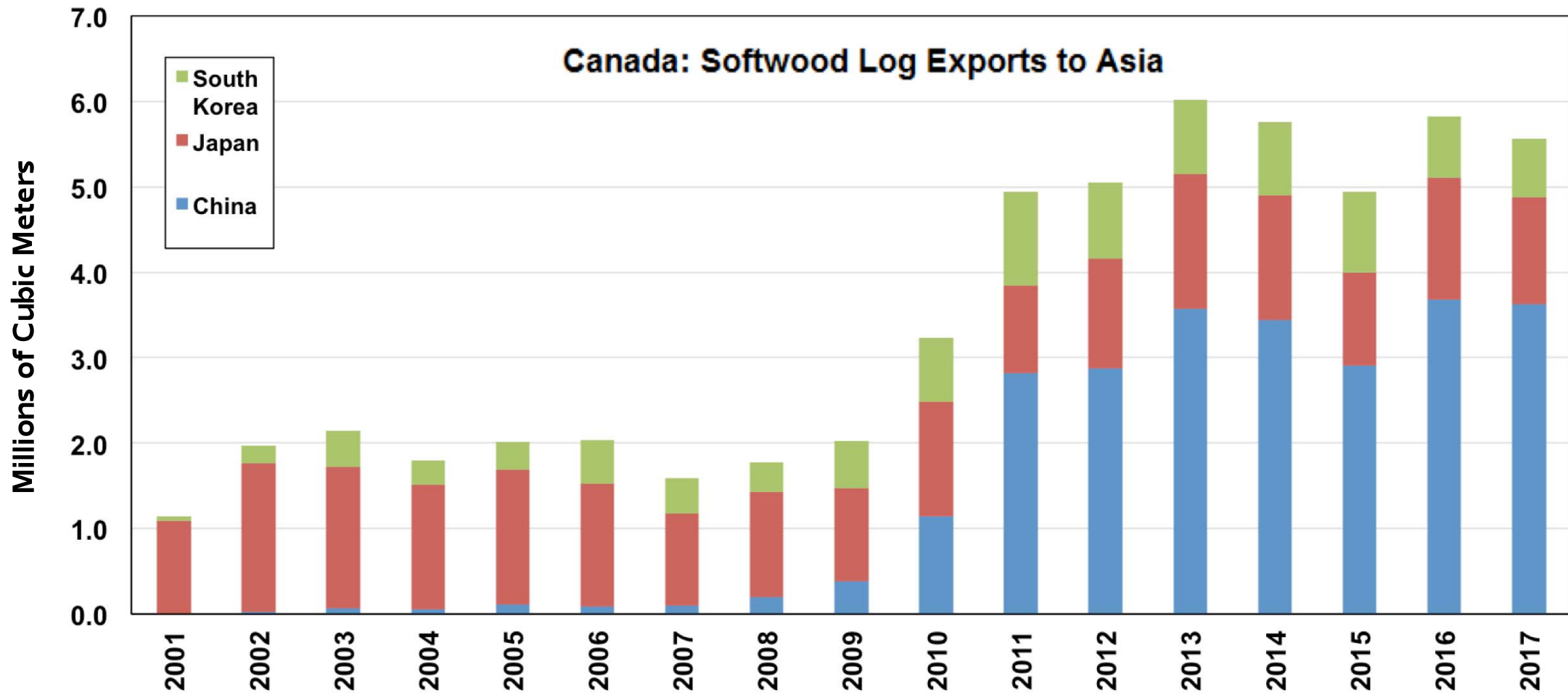
Australian softwood log exports were also at record levels in 2017, but are limited by age classes



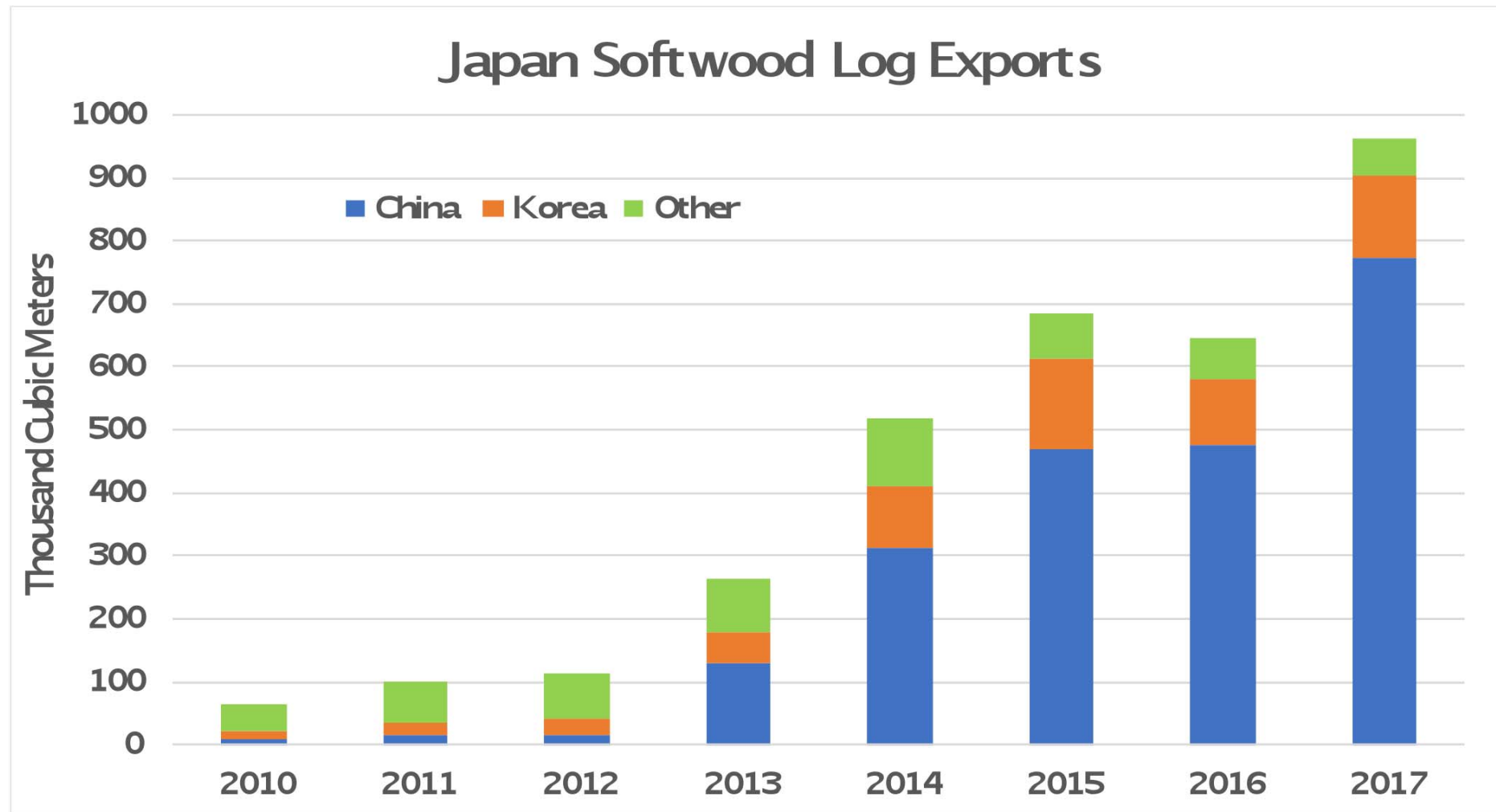
Growth in Australian softwood log exports to China is also limited

- About 30% of Australia's softwood log exports to China are pine logs less than 15cm in diameter. These small logs are peeled in China for core veneer. Larger logs generally go to sawmills.
- The rapid growth in log exports from Australia to China in recent years was due in large part to several very experienced log exporting firms from New Zealand opening up log yards at several ports in Australia, and building up the log export infrastructure.
- Last year, domestic sawmills in Australia had sufficient logs to operate, and much of the increased log export volume was small logs that the domestic industry did not want, or located in areas far from any domestic sawmills. Thus, there was little pressure last year from the domestic industry for the government to impose restrictions: however, this could change in the future.
- All long-term forecasts of softwood timber supply in Australia predict a flat supply curve for the next two to three decades.

Canadian log exports are subject to controls which favor domestic processors; volume to China is now less than Australia's



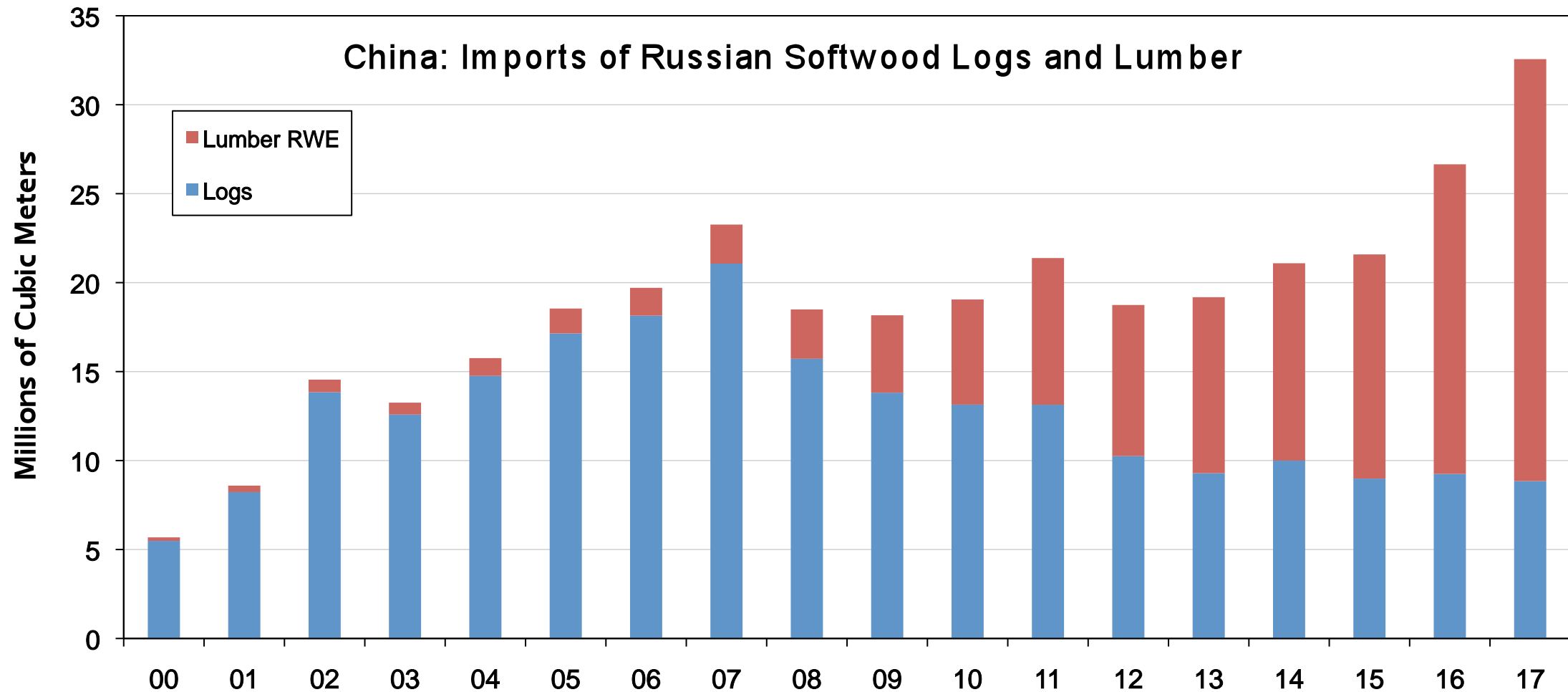
Japan has emerged as a supplier of softwood log exports, thanks to generous government subsidies



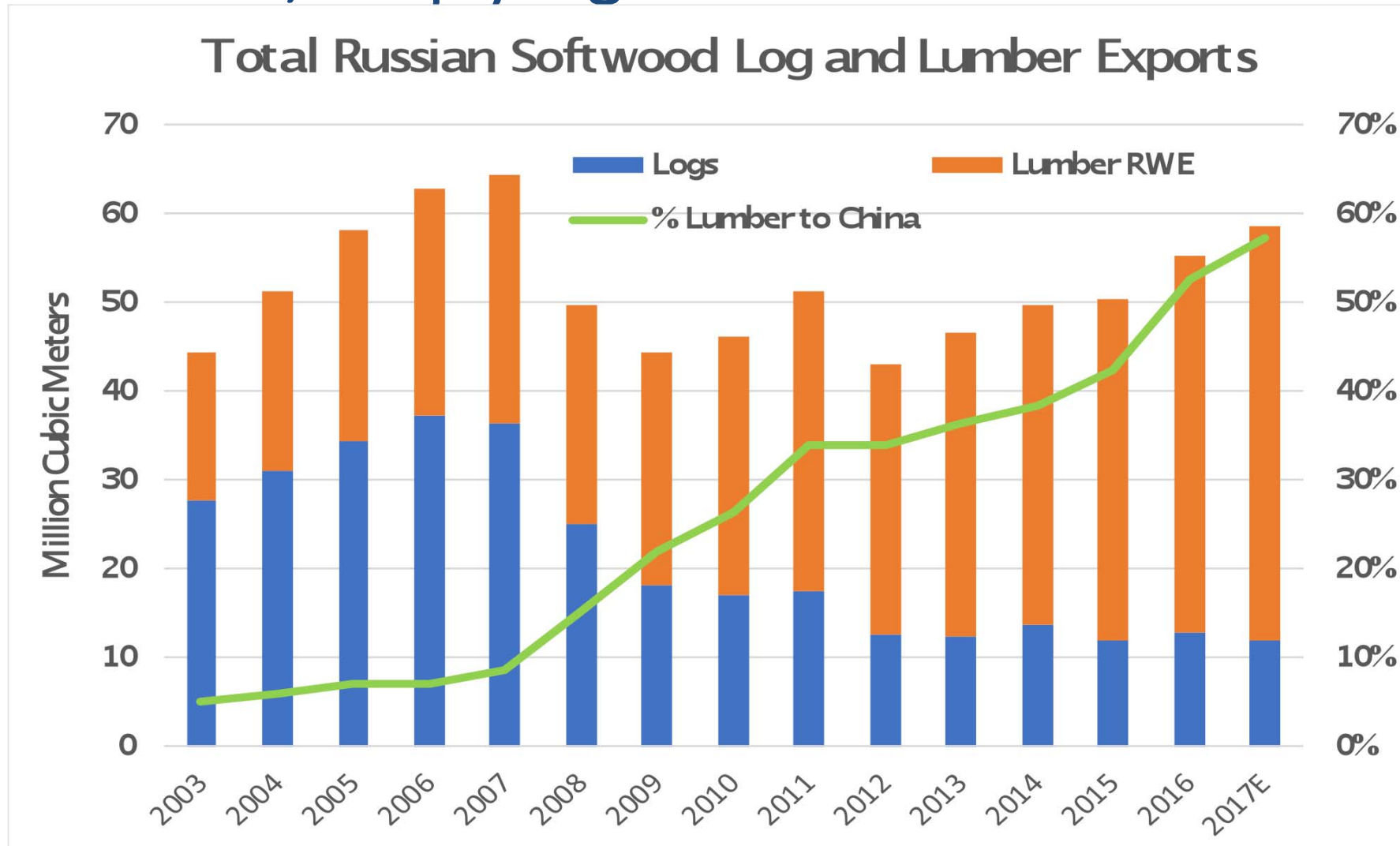
Uruguay has also burst on the scene as a new supplier of Loblolly pine logs to China

- The first bulk shipment of pine logs from Uruguay to China was December 2016. Since then, a total of 45 vessels (about 1.3 million m³) have been exported from Uruguay through early March 2018.
- Almost 90% of the logs are K-grade, SED 20cm+, with a high percentage coming from thinnings.
- Loblolly grows faster in Uruguay than in US South, and is less dense; some problems reported with some shipments (too long in storage?)
- But Uruguay logs are being used as a substitute for radiata pine in low-end construction uses, due to price (maybe 5% less than US SYP).

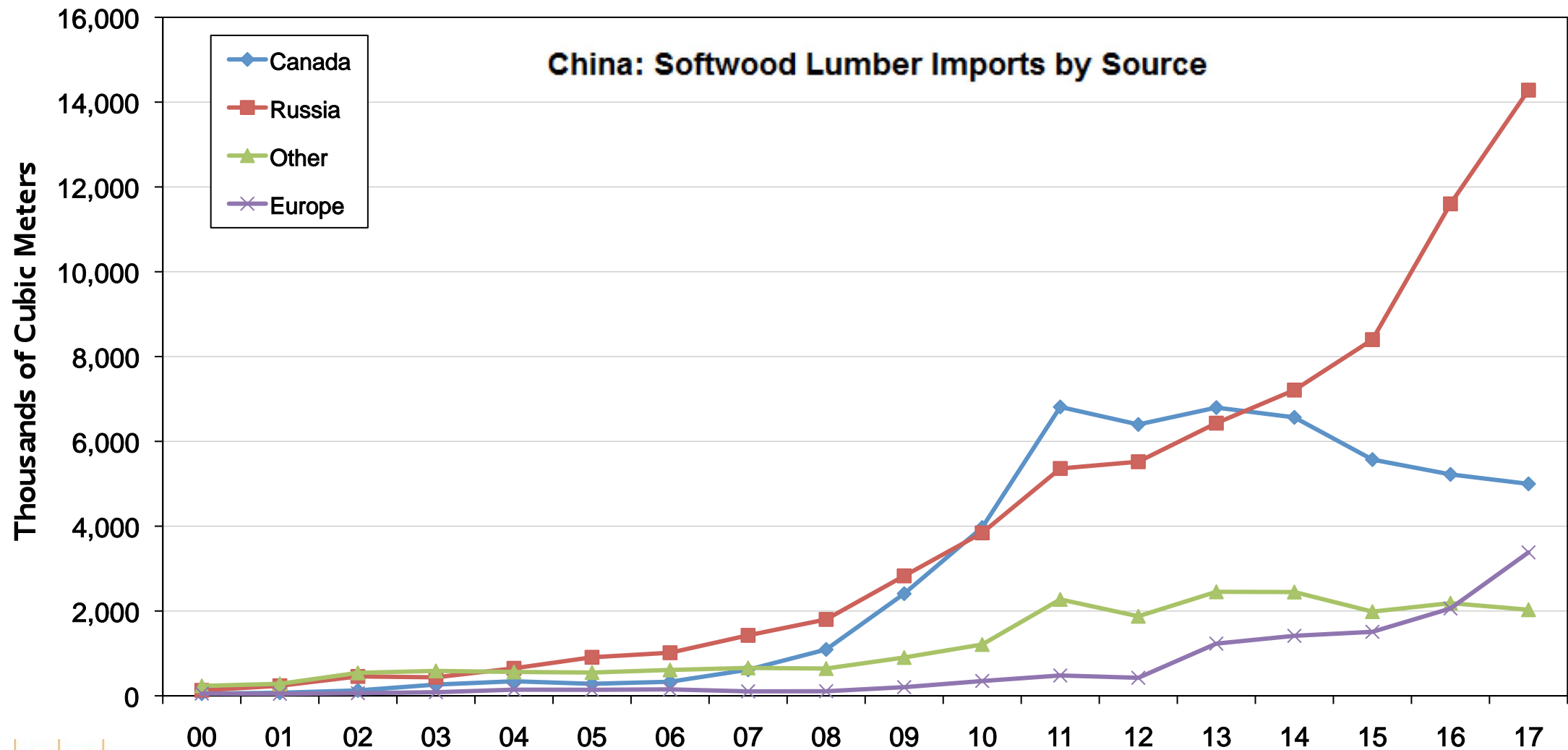
Due mostly to the log export tax, Russian softwood exports to China were 9% lumber in 2007, but 73% in 2017



But total Russian softwood exports have not really increased at all, simply a greater share directed to China

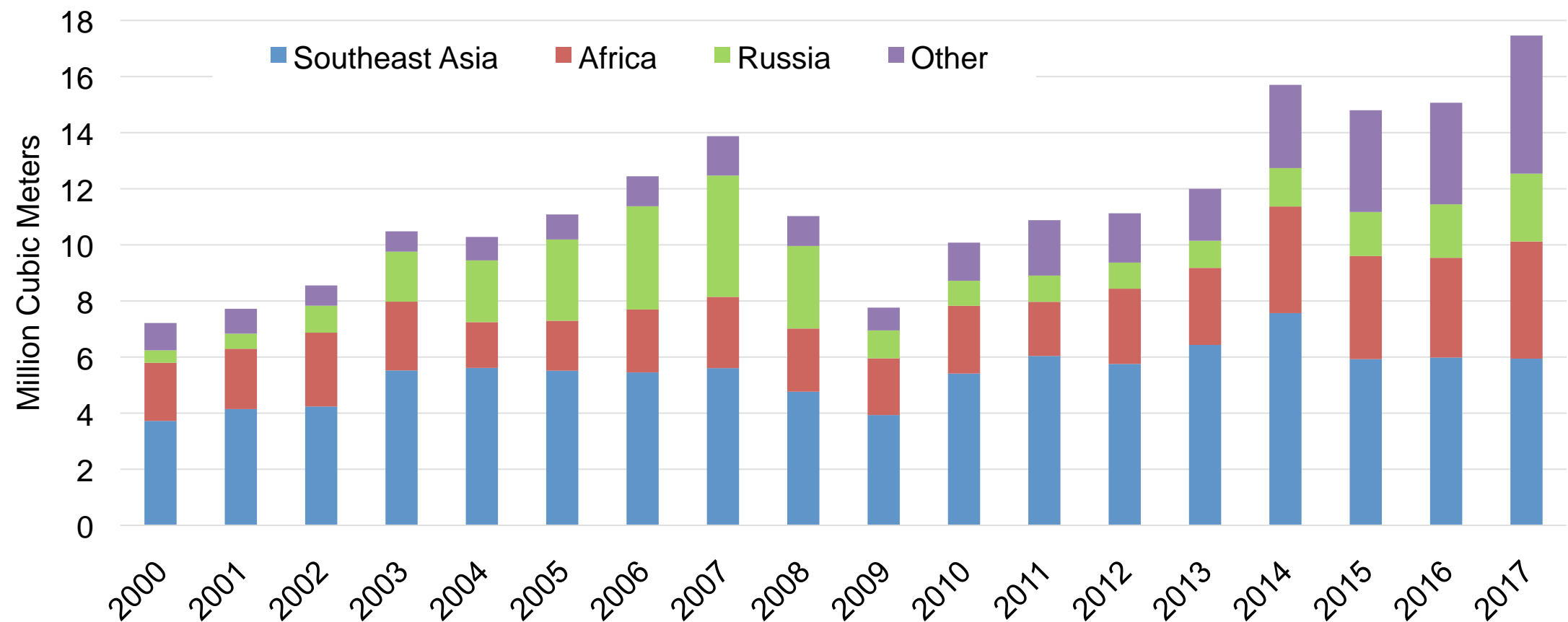


Russia now accounts for 57% of China's softwood lumber imports, and Canada only 20%



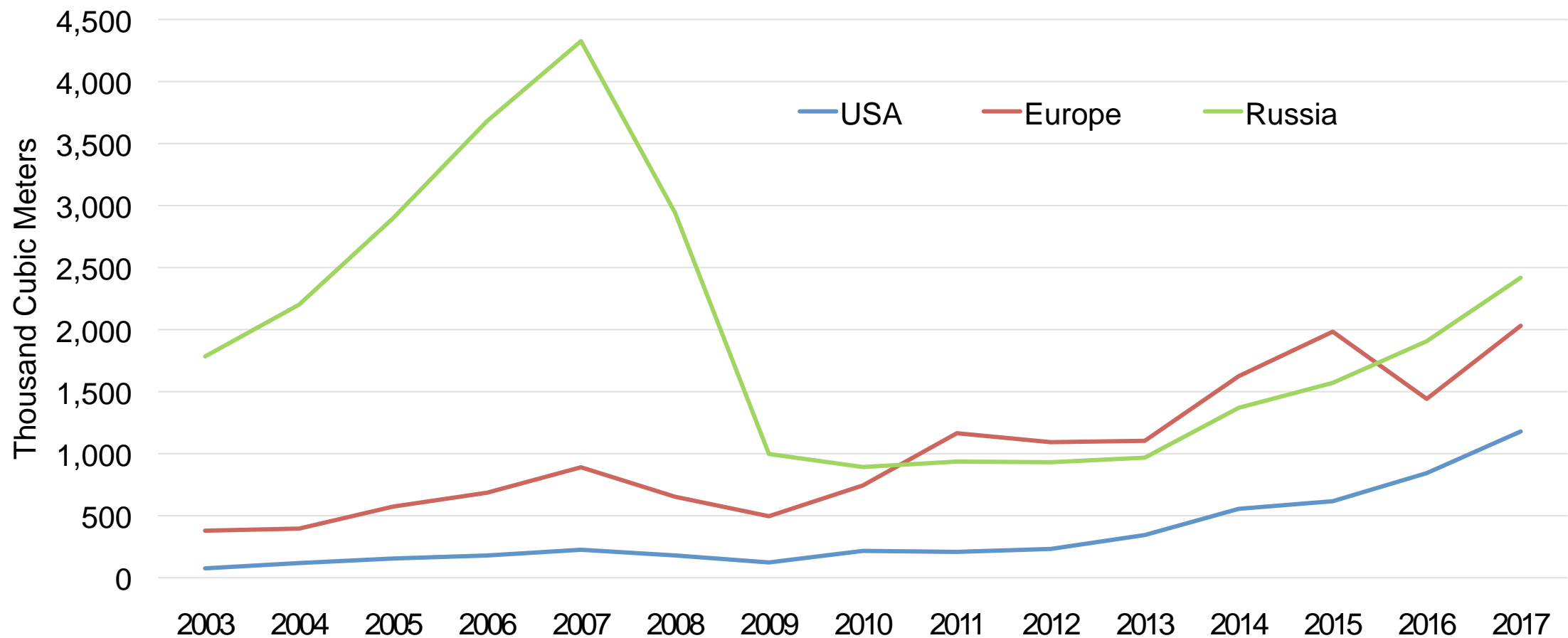
China’s hardwood log imports are 50% of the volume of softwood logs, but are important to plywood and value-added industries

China: Hardwood Log Imports by Source

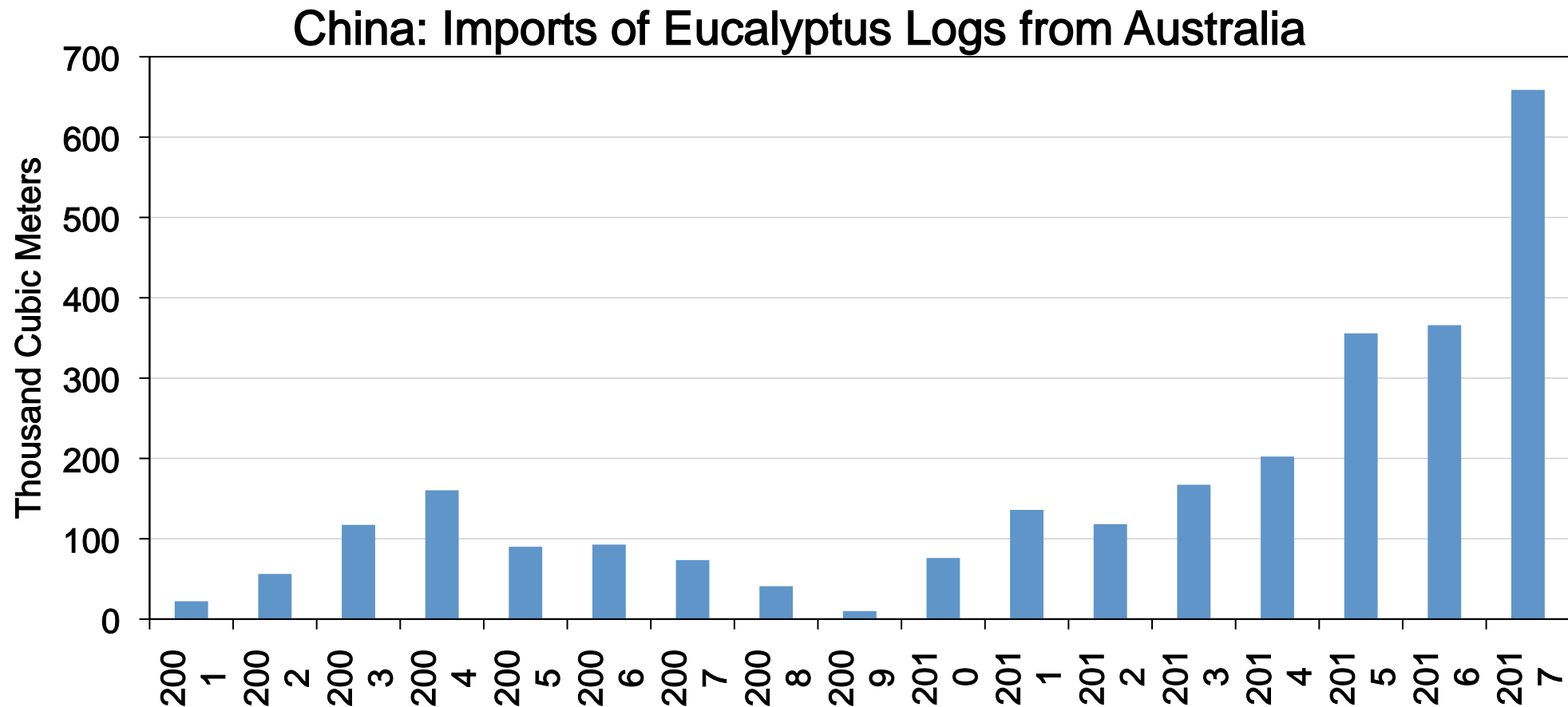


China's hardwood log imports include 60% tropical species and 40% temperate species; two-thirds of Russian logs are birch

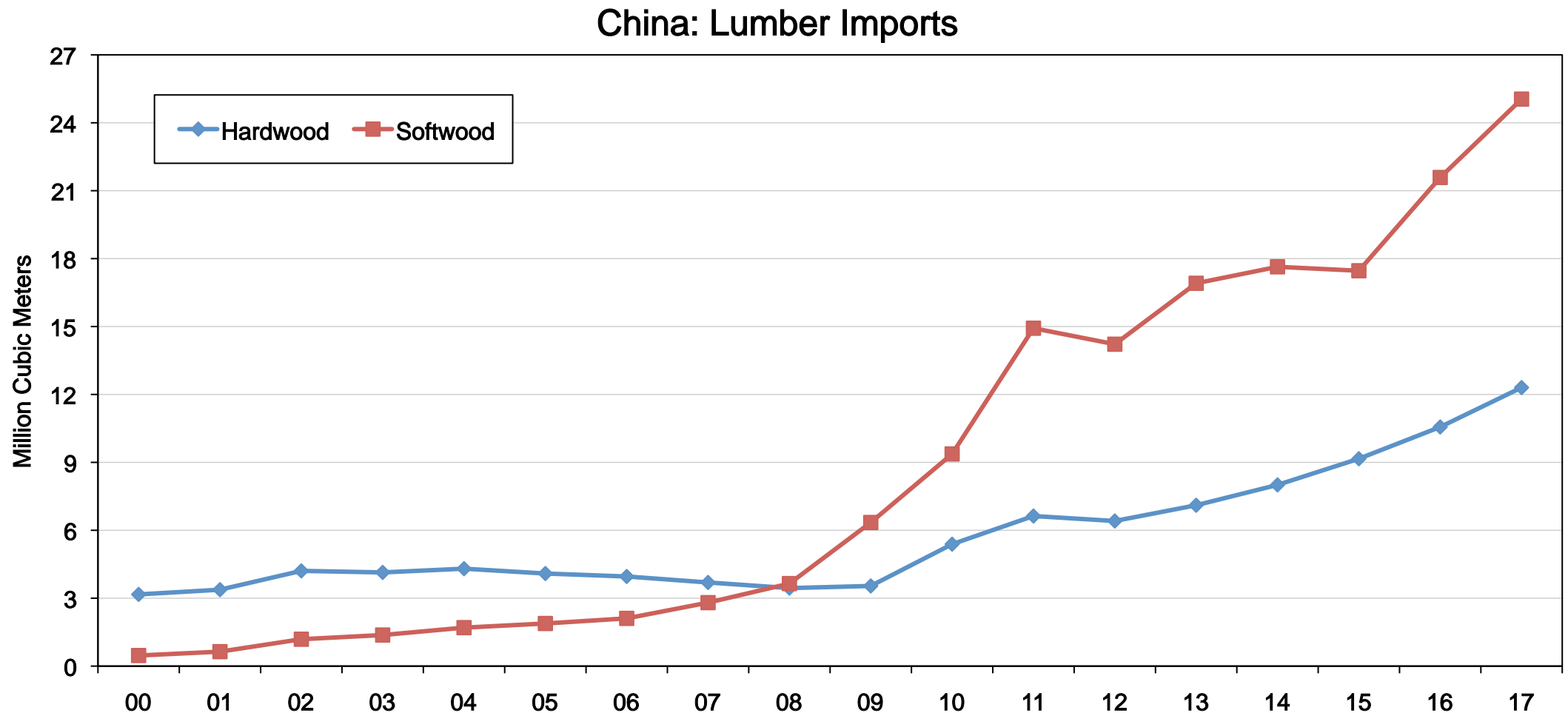
China: Hardwood Log Imports from USA, Europe and Russia



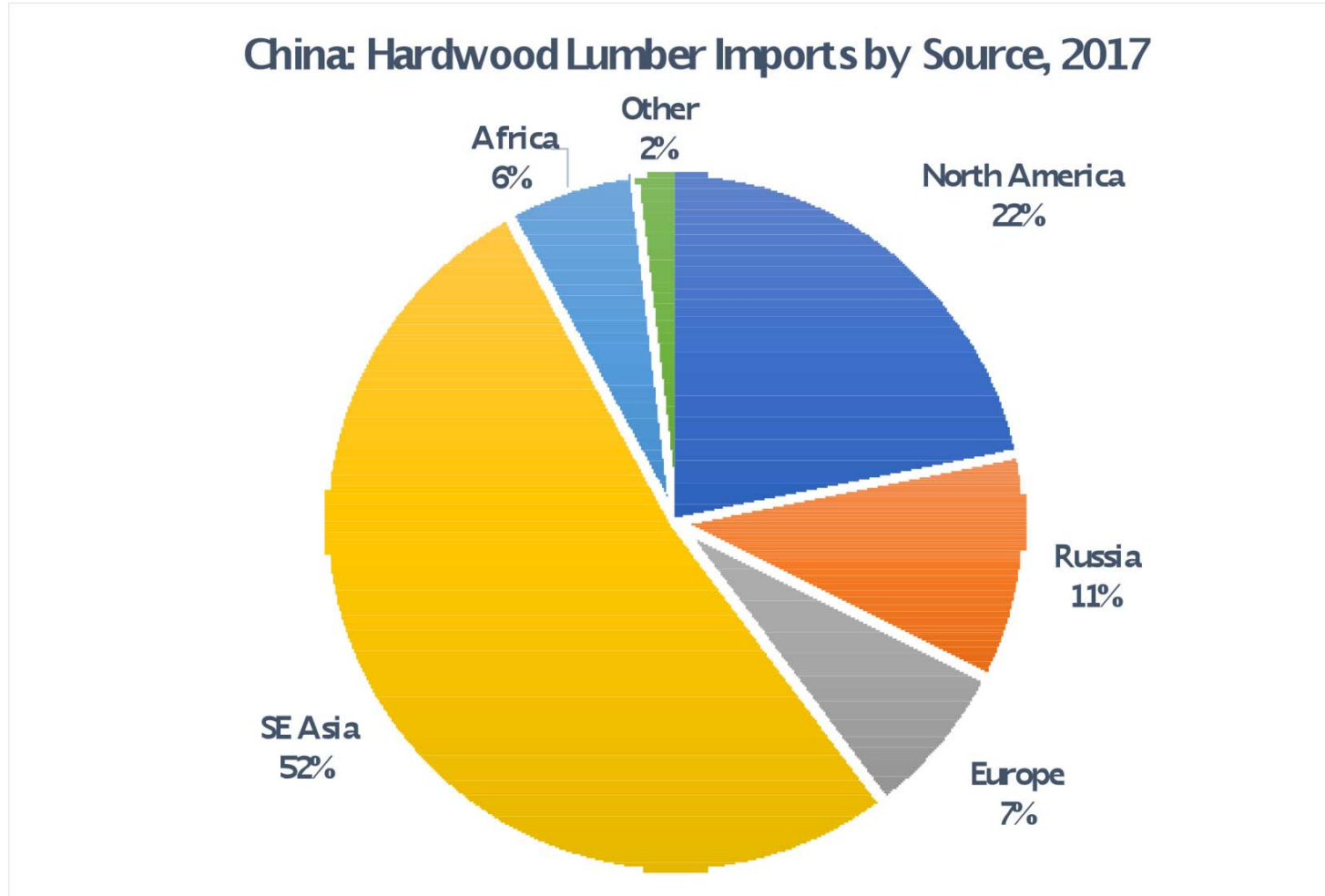
Increasingly, China is importing eucalyptus “sawlogs” to produce core veneer for plywood



China's hardwood lumber imports have nearly doubled since 2012, but are half the volume of softwood lumber imports



China's hardwood lumber imports are similar to logs: 60% tropical, 40% temperate



Summary Comments

- Over the past 15 years, China's imports of logs and lumber have grown at an astonishing rate. This is true of both hardwood and softwood species. However, while we expect the import demand in China to remain at a high level, growth in the flow of raw materials to China has reached a peak.
- Future growth will be limited by
 - § A more mature economy in China, and one where wasteful construction activity will be much more limited than in the past.
 - § Limited and/or decreasing supplies of timber available for export to China, e.g. tropical hardwood logs.
 - § Government restrictions on trade, e.g. log export restrictions in Canada, Gabon, and log export tariffs in Russia.
 - § Growing demand in competing markets, e.g. the USA and India.

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