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FACT SHEET

Survey of International Opportunities for Alaska Softwood Producers

The export segment of Alaska's forest products industry is characterized by its supply of high-quality Sitka spruce, western hemlock, western red cedar, and Alaska (yellow) cedar, all highly valued in domestic and export markets. The industry, however, is also characterized by its limited in-state and out of state transportation infrastructure, low economies of scale at most processing facilities, and harvest regulations that threaten the consistent supply of timber.

Alaska firms are clearly dependent upon exporting primary wood products, deriving over $660 million in revenue in 1993, the industry's peak. However, by 1998 export revenue dropped below $200 million. This sharp decline was due to a variety of factors including the Asian economic crisis, declining international timber prices, lower-cost competitors, changes in forest harvest regulations that led to a decline in Alaska's timber harvest, rising domestic processing costs, and expensive and time consuming shipping logistics to export markets.

Alaska producers must confront several challenges in order to survive and expand their role as a competitor in the international timber market. An important aspect of succeeding in an increasingly competitive market is product differentiation. Alaska suppliers must identify what products are in high demand in which markets and effectively match their production capabilities with specific product/market opportunities. This report describes some market opportunities for Alaska wood products and evaluates the ability of Alaska firms to compete in these product markets. The markets examined were: 1) Japan, 2) Korea, 3) China, and 4) Western Europe.

Japanese Market

Market opportunities exist for Alaska producers in supplying both structural and non-structural wood products into Japan. The Japanese market is experiencing a period of transition due to regulatory changes and new construction technologies. With regard to structural lumber, the Japanese market is transitioning from green to kiln dried lumber. Taking advantage of this transition will require a substantial investment in kiln drying facilities on the part of Alaska sawmill operators. In particular, Alaska producers should be able to take advantage of the preference for Sitka spruce in Hokkaido to supply kiln dried dimension lumber for the 2x4 market and kiln dried baby squares for the post and beam market (90mm, 105mm, 120mm, 130mm, and 150mm squares). Two other products that should be of interest to Alaska sawmillers are non-structural studs (mabashira) and sill plates (dodai) for post and beam homes. The precut industry provides an opportunity for Alaska sawmillers to export kiln dried lamstock to precut component manufacturers.

Perhaps the greatest market opportunity for Alaska softwood lumber exists in the market for non-structural lumber products. Japanese shoji manufacturers have a long history of utilizing Alaska Sitka spruce, western red cedar, and Alaska (yellow) cedar in the manufacture of a wide variety of products. Clearly there is already a strong market for logs and waney cants in the shoji industry. However, the opportunity also exists to supply both green and kiln dried lumber to shoji manufacturers. Shoji manufacturers have already shifted towards using white spruce in their products, and they indicated that price is an important consideration.

Korean Market

The market for Sitka spruce logs and lumber is the most promising market for Alaska suppliers in Korea. Korea imports more Sitka spruce lumber from the US than any other softwood species. Exports have been variable during the past eight years that export data are available, and exports plummeted in 1998 as the Asian recession slowed production and consumption in Korea. However, 1999 statistics show that Sitka spruce lumber export volume has doubled since 1998. Since other species cannot rival the suitablity of Sitka spruce as a superior wood for musical instruments, and Alaska has the largest supply of Sitka spruce in the world, Alaska suppliers have a comparative advantage in the Korean wooden musical instrument industry.

Korea also has a growing market for dimension lumber for 2x4 construction, although this market is still small and faces several obstacles related to 2x4 technology transfer and building codes, which currently limit the widespread adoption of 2x4 housing. Rather than focus on Korea for higher processed wood products, such as lumber, it may be more appropriate for Alaska producers to focus on maintaining their share of the Korean market for pulp logs and Sitka spruce logs or non-commodity specialty wood products, such as wood for musical instrument manufacturing. Since the price for premium Sitka spruce is higher than the price for dimension lumber or wood that is used in plywood manufacturing, the musical instrument makes more sense for Alaska firms.

Table 1. US softwood lumber exports to Korea, by species 1992-1999 (cubic meters).

	1992	1993	1994	1995	1996	1997	1998	1999
Sitka spruce	6,940,065	4,463,273	8,482,390	11,218,265	7,985,861	7,879,060	1,710,681	2,508,094
Pine	475,666	415,876	344,473	403,825	330,322	2,048,315	639,435	1,225,731
Cedar	91,656	93,508	124,976	--	323,257	748,391	155,682	396,918
Douglas fir	996,976	892,753	165,436	960,686	1,349,825	1,084,663	225,197	336,716
Hemlock	1,787,218	3,857,177	655,411	663,613	310,337	501,473	29,443	321,779
Southern yellow pine	512,983	13,477	--	47,508	54,808	209,626	--	139,694
Western red cedar	247,154	177,411	496,240	211,572	685,472	253,930	109,797	100,698
Coniferous, NESOI*	2,519,207	2,131,331	2,203,274	3,057,400	3,023,866	1,438,113	269,288	70,106
Redwood	266,808	475,900	154,648	276,806	285,179	286,200	24,931	43,540
Spruce, NESOI	1,082,431	5,011,600	5,918,937	896,318	1,966,999	3,345,826	465,197	19,446
Fir	7,566	111,200	--	985,628	1,889,956	795,584	105,087	--
Larch	--	--	--	--	25,776	16,397	--	--
Spruce-Pine-Fir	--	--	--	--	--	37,389	--	--
Yellow cedar	165,950	--	106,684	189,650	74,300	--	0	--

Source: USITC 2000. *non-specified (1 cubic meter = 423 board feet)

Western European Market for Naturally Decay Resistant Alaska Species

While there are markets in the EU for naturally decay-resistant wood products, Alaska species such as western red cedar and Alaska (yellow) cedar face five basic obstacles: 1) the niche markets where they could be used are very small, 2) the end-uses for these species are dominated by lower-cost domestic species, 3) in high-end niche markets where Alaska species could be used, tropical species dominate, 4) the cost of transporting products from the Western US to Europe is high 5) the US dollar has been strong and exchange rates unstable, making prices for US products less competitive and stable compared to European wood products. The markets where naturally decay-resistant species could be used include the decking market in the UK and the siding market in Denmark, which utilize western red cedar and lesser amounts of Alaska (yellow) cedar. However, Alaska species encounter formidable competition from lower-cost European redwood and European whitewood and tropical hardwoods. The UK decking market is dominated by lower priced domestic redwood and whitewood, and tropical wood dominates the high-end decking market.

Another promising market for western red cedar products may be the US Pacific Northwest where red cedar is used for exterior decking and siding. Current estimates indicate that over 6.5 million decks are constructed on U.S residential structures on an annual basis at a cost of $1.9 to $3 billion. Slightly over 47.4 of new home decks were found to be constructed with pressure treated lumber, followed by western red cedar, concrete, and redwood representing 18.5, 14.1, and 11.1 percent of the market, respectively (Shook and Eastin 2000). Increasingly strict harvest regulations about allowable harvest areas in the US PNW coupled with the increasing demand for western red cedar decking and siding may present an opportunity for Alaska suppliers. Harvest volumes in British Columbia are also declining. Finally, the logistics of servicing a regional as opposed to international market are numerous. Regional markets are easier to access because there are no differences in language or consumer preferences, and they are closer, making shipping, establishing contracts, and providing after sales service easier. The PNW market is particularly suited to Alaska western red cedar producers because products often go through Seattle en-route to international destinations and therefore the distribution channels have already been established.

The full report, *Survey of International Opportunities for Alaska Softwood Producers*, is available on CINTRAFOR's web site www.cintrafor.org.