

CINTRAFOR NEWS

CENTER FOR INTERNATIONAL TRADE IN FOREST PRODUCTS

US Wood Demand Exceeds Supply, Japan to Rebound Experts Report

Compiled from articles by Audrey Dixon, ForestWeb

Strong US housing demand continues to consume all that US producers can produce, with imports filling the shortfall; Washington mills are adapting to changing resource availability; Japan's economy is set for recovery; and China dominates demand for the world's ocean shipping; were just some of the conclusions of the September CINTRAFOR conference.

CIBC World Markets Inc. managing director Don Roberts opened the conference by saying that global industrial growth in 2004 "is about as good as it gets." Roberts revealed how uneven global growth had been this year, with China around 10% GDP, Japan and the U.S. each around 4.3%, Canada at 2.7% and the Euro area at about 1.7%.

Leading indicators for the U.S. are all still strong, said Roberts, and GDP growth is expected to be 3.3% next year. But braking forces in play include a debt fatigued U.S. consumer sector; fading U.S. fiscal stimulus; and high energy prices.

Most forecasters see there being fewer housing starts in 2005, but the outlook for 2005 varies widely between forecasting agencies ranging from 1.84 million to 1.59 million.

In international markets, Roberts said CIBC predicts 4.6% growth for Japan in 2005. "Japan is not the Japan of the 1990s but it is the U.S. of the 1990s. Japan is looking at a recovery that is both strong and long." Japan is experiencing its best growth year in a decade, with strong household balance sheets, excellent consumer confidence with spending rising its fastest in 10 years, loose monetary policy, high property affordability, and rapid export growth, he explained.

China GDP is expected to grow 9% next year. It is the sixth largest economy and accounts for less than 6% of world trade—but it also accounts for about a quarter of growth in world trade. On the downside, China has serious structural reform challenges in the financial and state enterprise sectors, with power, transport and material shortages set to decrease its rate of expansion from 2004 levels.

Canada, for which CIBC forecasts GDP growth of 3.1% for next year, is the most vulnerable to a rising currency, said Roberts. With exports to the U.S. accounting for about 35% of GDP, it has seven times the exposure of Europe to the U.S. market, and as the C\$ rises it robs producers of pricing power.

Canada's share of FDI is also falling, which will eventually impact Canadian factories. "We expect Canada to really lag U.S. growth in the next couple of years," said Roberts. "It's going to be very difficult for the Canadian dollar to stay strong."

Craig Adair, director of market research at APA-The Engineered Wood Assn., told delegates that increases in demand for engineered wood products in all markets in the next five years will mean that even with North American production set to grow it will still fall short of demand with the gap met by imports. Demand for North American OSB in 2009 will reach 29 bsf of which 18.9 bsf will go into residential construction. Production will rise from 24.6 bsf to 28.5 bsf, with imports rising to 500 mmsf.

All engineered wood products hit record production levels in the second quarter of 2004. I-joist production broke the 300 million lineal foot barrier; glulam reached 100 million board feet; and LVL exceeded 20 million ft³. Only a small decline in glulam production is expected in 2005, as nonresidential construction demand will increase, and production will rise to levels similar to those of 2004 (389 mmbf) and stay consistent for the next four years.

The softwood lumber industry can also expect softer prices this year and next, as global demand starts to lag behind supply, according to the Western Wood Products Association's director of economic services Kevin Binam. The strong U.S. and Asia markets will become increasingly attractive to softwood producers.

Binam said U.S. lumber demand is forecast to reach 59.7 billion board ft (bbf) this year, up 5% from last year, falling to 57.2 bbf next year but rising again in 2006. U.S. lumber production will follow this trend,

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<http://www.cintrafor.org>

"Japan is not the Japan of the 1990s but it is the U.S. of the 1990s. Japan is looking at a recovery that is both strong and long."

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Director's Notes:

by Ivan Eastin

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The Center for International Trade in Forest Products addresses opportunities and problems related to the international trade of wood and fiber products. Emphasizing forest economics and policy impacts, international marketing, technology developments, and value-added forest products, CINTRAFOR's work results in a variety of publications, professional gatherings, and consultations with public policymakers, industry representatives, and community members. Located in the Pacific Northwest, CINTRAFOR is administered through the College of Forest Resources at the University of Washington under the guidance of an Executive Board representing both large and small companies, agencies, and academics. It is supported by state, federal, and private grants. The Center's interdisciplinary research is carried out by university faculty and graduate students, internal staff, and through cooperative arrangements with professional groups and individuals.

CINTRAFOR News Editor:
Rose Braden and Clara
Burnett

This summer CINTRAFOR underwent a regular program review as required under our federal grant program. The review team included distinguished faculty from two peer institutions and the program administrator for the USDA CSREES program, Dr. Catalino Blanche. The review team conducted an exhaustive evaluation of CINTRAFOR, our research mission, and our effectiveness in meeting our strategic objectives. At the conclusion of the review process, the review team noted: "The CSREES Review Team finds the Center to be a unique, and well-recognized, interdisciplinary international research and outreach program with dedicated and productive faculty, staff, and graduate students." Further, the review team concluded that CINTRAFOR "has developed a **highly recognized program of excellence in international studies** with a diverse portfolio of international research."

The faculty and staff who comprise the CINTRAFOR team are to be commended for their dedication and hard work that resulted in CINTRAFOR being nationally and internationally recognized as a Center of Excellence. However, the faculty and staff of CINTRAFOR owe an

enormous debt of gratitude to our graduate students. While the graduate students oftentimes do not receive the recognition they so richly deserve, their contributions to CINTRAFOR have always been a critical part of our success. Over the past year, several people have told to me that they perceive CINTRAFOR to be an overachiever—an observation no doubt related to the high volume and quality of CINTRAFOR research relative to its small size. This again is a reflection of the significant contribution of the CINTRAFOR graduate students to the research program.

CINTRAFOR has a history of recruiting, supporting and graduating high quality graduate students. These graduate students represent a broad spectrum of nationalities and experiences and they have greatly contributed to expanding the diversity of the graduate student community within CINTRAFOR and the College of Forest Resources. Given the important role of the graduate students to the success of CINTRAFOR, it is only fitting that we dedicate this issue of the CINTRAFOR News to all of those graduate students, both past and present, who have had such an enormous impact on the success of CINTRAFOR. ▲

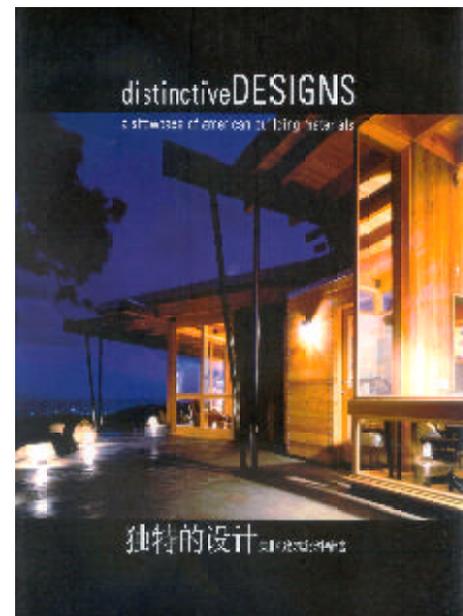
"Distinctive Designs" Available

"Distinctive Designs – A Showcase of American Building Materials", is now available through CINTRAFOR online and in print. Developed to provide Chinese designers and end-users with ideas about how to integrate wood and non-wood U.S. building materials into projects in China, the full-color book highlights the design flexibility of U.S. made building materials in this showcase of innovative uses design in residential and commercial construction, bridges, and interiors. The book is also a useful tool for US companies to illustrate product applications to their customers.

The more than 50 award winning projects featured in the book represent a variety of countries and climates, with a diverse range of end-uses and material combinations. English-Chinese descriptions that accompany the projects highlight the design goals and materials used. Artfully designed project profiles include project photos and floor plans.



Companies can obtain a copy of the book for \$15 by contacting CINTRAFOR. A pdf of the document is also available at www.cintrafor.org ▲



“US Wood Demand” continued from page one.

ultimately reaching 36.8 bbf in 2006, meaning imports will increase.

“Other producing nations are going to be hitting the U.S. and Asian markets.” Mark Cederberg, chartering manager at San Juan Navigation LLC, described how China was also the new driver of the freight market.

Record China-led cargo volumes and a modest fleet supply had created a firm market. Delays in ports were literally removing ships from the market, compounded by such unpredictables as massive global grain movements. To predict the direction of the freight market, Cederberg said, look at iron ore demand. Steel demand from China is rising to meet Beijing Olympics demand, which is likely to mean strong demand for some time to come. He questioned whether there were enough ships—especially for the forest products industry, which primarily uses Handysize vessels, most of which are older, with replacements not being built either rapidly or in great numbers. Demolitions have exceeded deliveries in the last few years and the fleet has shrunk by 6.7% in dwt capacity since 1999.

Cederberg concluded by listing indicators that suggest the tight freight market will last: European growth is set to improve; there are positive signals on steel prices; new iron ore and coal export capacity; Latin American soya exports hit a record in 2004; fleet supply growth is under control, though “Chinese demand is the critical factor.”

Conversely, Roy Nott, president of Paneltech International LLC, believes rail transportation is a logistical opportunity not being fully exploited by the forest products industry.

Nott said logistics were the key to minimizing asset requirements and exploiting potential scale economies. He said that companies no longer compete with companies, but supply chains compete with supply chains. Noting that the freight transportation network is becoming overburdened, that there was an explosion in Asian imports, and that a transportation crisis was looming in the U.S., Nott quoted Peter Tirschwell in saying: “Until recently, the U.S. has basically been deaf, dumb and blind to the growing problem of freight congestion that has accompanied the growth and internationalization of the U.S. economy. Getting ourselves out of the mess we are now in won’t be simple or cheap.”

The forest products industry has railcar equipment specialization/pooling opportunities that are not fully used and has “many, many opportunities to improve its multi-modal supply chains. Most have rail components.” ▲

Presentations available at www.cintrafor.org. Full articles available at www.forestweb.org.

Discrepancies in Forest Products Trade Statistics

By Dr. Ivan Eastin and Dr. John Perez Garcia

Working Paper 95: Discrepancies in Forest Products Trade Statistics describes the extent to which discrepancies in trade statistics occur within the forest products sector and identify areas where unusually large trade statistics discrepancies appear to exist. It also identifies factors that contribute to trade discrepancies and makes recommendations to help trade analysts evaluate and better understand the factors that contribute to trade statistics discrepancies. CINTRAFOR gratefully acknowledges funding for this project from the International Tropical Timber Organization.

The literature notes a number of factors that contribute to discrepancies in trade statistics between two countries. However, there is no research describing the relative importance of specific factors in impacting trade discrepancies. This shortcoming is likely due to the fact that the mix of factors that influence the trade relationship between any two countries tends to be unique to that trading relationship.

WP95’s analysis of the trade data demonstrates several fundamental characteristics of the trade statistics for forest products. First, the average discrepancy in the trade statistics becomes smaller as the degree of processing increases (the difference in discrepancy ratio was significant between logs and lumber and logs and plywood but not between lumber and plywood). Second, the analysis showed that the magnitude of the reported imports tended to exceed reported exports. Third, the statistical analysis found that, while there was a significant difference between the size of the trade statistics discrepancy ratios between developed and less-developed countries across all three products combined, on a specific product basis, this difference was only significant in the case of lumber. Finally, the trade statistics were statistically analyzed to establish a “normal” range of trade statistics discrepancies that might serve as a guide for trade analysts to identify unusual discrepancies that might require further investigation.

This research clearly shows that discrepancies within the trade statistics are to be expected and anticipated within limits. However, the analysis of the trade data and the bilateral trade statistics discrepancy ratios suggests that there are substantial discrepancies in the trade statistics for logs, lumber, and plywood. While there are a variety of reasons why we would expect that reported exports would not equal reported imports, the magnitude of many

Discrepancies in trade statistics become smaller as the degree of processing increases.



Meet CINTRAFOR's Graduate Students

CINTRAFOR relies heavily on its talented pool of graduate students for the myriad of research that we do. Our students come from a variety of professional backgrounds and geographic areas. This year we are pleased to work with nine graduate students.

CINTRAFOR graduate students have degrees and/or certificates in the fields of:

- Wood Science
- Engineering
- Forestry
- Economics
- Environmental Management
- Plant Science
- International Studies
- Furniture Design
- Restoration Ecology
- International Development Policy & Mgt.
- Zoology

CINTRAFOR graduate students have professional experience in the fields of

- Teaching
- Marketing
- Economics
- Forest use Planning
- Carpentry
- International Policy

James Barr (USA)

I graduated from the University of New Hampshire with a BS in forestry and a minor in environmental and resource economics. I am currently working on an MS in forest economics with CINTRAFOR. As a graduate research assistant with CINTRAFOR I am working with Dr.



John Perez-Garcia on a study of the sawmill industry in Washington state. I hope to focus my thesis work on developing growth projections and financial models of the forestry sector using an ecosystem approach. This supports my career goals of working in small scale forest consulting or for a non-profit landowner.

Jeff Xiaozhi Cao (China)

I attended Nanjing Forestry University in 1995 with a major in Furniture and Interior Design. By my graduation in 2002, with an MS in Wood Science and Technology, I had won several honors, including the first place award in a national furniture design contest and several college scholarships for academic excellence. Upon graduation, I worked as an intern for the Softwood Export Council and the American Hardwood Export Council where I assisted with business tours and public relations for US wood suppliers marketing their products to the Chinese home furnishings industry.



Following graduation, I attended Oregon State University where I was awarded a fellowship to pursue my MS in forest products marketing. Working with Dr. Eric Hansen, I studied new product development and innovation in China's furniture industry. During this time, I was also involved with a Softwood Export Council sponsored study on wood use in furniture making as well as the development of a marketing strategy for treated wood in China. I joined CINTRAFOR as a doctoral student in October 2004 and am working with Dr. Ivan Eastin on a study of the distribution channels for wood products in China. My current research interests are focused on forest products logistics and distribution in the East Asian region.

Indroneil Ganguly (India)

I am a Ph.D student in the Forest Product Marketing program. My concentration is in international trade and market modeling. I have a Certificate in International Development Policy & Management from the Daniel J. Evans



School of Public Affairs, University of Washington. I received my undergraduate degree in economics and an MBA with specialization in marketing, from premier educational institutes in India. Before coming to the US, I worked for the Government of India as a "Young Professional" from 1998 to 2000, and later, from 2000 to 2002, with a leading NGO as the manager of marketing and research. During this period I worked on economic, social and sustainability aspects of forestry programs in India.

I am now working as a research assistant with Dr. Ivan Eastin. The projects that I am working on include analysis of various aspects of domestic and international wood-product markets. My competence is in applying analytical techniques to solve marketing problems. I have training in the application of a number of statistical packages. The recent awards that I have received include the Lawrence Ottinger Forest Products Endowed Fellowship and the Simpson Centennial Endowed Scholarship in Forest Products Business from the College of Forest Resources (2002-2003) and a scholarship for studies abroad from Calcutta University (2002).

Jean Daniels (USA)

I began my career in forestry as a Municipal Arborist with the City of Houston. I left that position to pursue a Ph.D. in Forest Economics through CINTRAFOR at the University of Washington. Under the guidance of my advisor, Dr. John Perez-Garcia, I have authored two publications through the U.S. Forest Service, titled "Assessing Socioeconomic Resiliency in Washington Counties" and "The Rise and Fall of the Pacific Northwest Log Export Market", respectively. In addition, I have compiled a trade database for all wood products based on U.S. Department of Commerce trade data. I expect to assume a position with the U.S. Forest Service Pacific Northwest Research Station in Portland focusing on trade after completing my degree in 2005.



Farzana Nahrir (Bangladesh)

I am a graduate student in Forest Economics with CINTRAFOR in the College of Forest Resources. I am a graduate research assistant working with Dr. John Perez-Garcia. My research interests are in the fields of trade flow analysis and trade policy of forest products in the US. Prior to pursuing graduate studies with CINTRAFOR, I completed my BA degree in Environmental Studies in my home country of Bangladesh. Following graduation I worked for a local non-governmental organization engaged in natural and human resource development activities.



Eric Peterson (USA)

I am a first year student in International Forestry in the Peace Corp's Master's International Program. Some of my interests include community forest management and adjacent collaborative management arrangements, forest certification, and forest management with conservation incentive agreements.



My move to Seattle is the culmination of a myriad of travels and experiences. Along the way, I have had the privilege of working alongside the director of an orphanage in northern Thailand, a member of the German Parliament (Budestag), a nature center director in the German Black Forest, a carpenter in central Colorado, elementary school teachers in Colorado Springs, and a fire information officer in Grand Teton National Park. While living in Seattle I look forward to exploring opportunities at the UW and throughout the region, including my perennial hobbies of alpine skiing and mountain biking.

Annalissa Ritchie (USA)

My environmental aspirations started before grade school as my friend and I would rush to save the newts crossing the road before the cars came barreling down to make bookmarks of them. The human/landscape interface has remained of great interest to me. I received a BS in Zoology and have worked for various entities on salmonid monitoring and research in the Pacific Northwest. While in school, I also received a certificate in restoration ecology and developed a keen interest and desire in affecting a positive change in the way the landscape and resources are used as well as an understanding of how many different socio-economic factors come into play.



I am pursuing a Peace Corps Masters International degree in International Forestry from the College of Forest Resources. Through this degree I hope to address the issues of sustainable development, ecologically based resource management and restoration. The two year stint in Peace Corps should offer new insights into these issues while affording opportunities to exchange knowledge and work with a community in developing solutions to resource/environmental problems.

Alicia Robbins (USA)

I joined CINTRAFOR in 2001 when I came to the UW to pursue concurrent Masters degrees in International Studies and Forest Economics. Working with Dr. John Perez-Garcia and CINTRAFOR has enabled me to focus on my interests in interna-



tional trade and natural resource valuation. I am a co-author of CINTRAFOR WP94 (China Wood and Building Materials Market Sourcebook). I also wrote a report summarizing the federal, state, and local environmental policies that affect forestry and forest practices in the Pacific Northwest. My Masters thesis has focused on measuring consumer interest in paying for renewable building materials in new home construction. This summer I completed my Master's in International Studies and have just completed work on my Master's thesis in Forest Economics. I also hold a BA in East Asian Languages and Cultures from Columbia University. This summer I received a fellowship from National Chung Hsing University in Taiwan to participate in their Summer Program in International Management, held in Taichung, Taiwan.

Daisuke Sasatani (Japan)

I was born in Osaka, Japan and attended Osaka Prefecture University, earning my Bachelor's degree in plant science. I then attended Yale University where I studied environmental economics, policy and business and earned a Masters degree in Environmental Management. I am working with Dr. Ivan Eastin and CINTRAFOR on a second Masters degree in international trade and marketing. As a CINTRAFOR research assistant I am interested in conducting market research on the trade of wood products in East Asia. My current research focuses on the environmental perception for timber products among Japanese consumers. ▲



CINTRAFOR graduate student research projects are focusing on:

- **Distribution channels for wood products in China**
- **Washington's sawmill industry**
- **PNW log export markets**
- **Analytical approaches to solve marketing problems**
- **Trade flow policy for forest products**
- **Community forest management**
- **Sustainable development**

Josef Kolar

CINTRAFOR Mourns A Friend

I am deeply sad to report the death of a good friend and colleague, Josef Kolar, who passed away at the beginning of December. Josef and I studied together as graduate students with CINTRAFOR and I came to have a deep respect for Josef, both as a fellow graduate student and as a close friend. Originally from Czechoslovakia, Josef earned an MS in Wood Science and Technology from the University of Forestry and Wood Technology in Zvolen in 1981 and a second MS in Forest Products Marketing with CINTRAFOR at the University of Washington in 1989. Following graduation, Josef worked as a Sales/Purchasing manager for a local veneer distributor from 1988 to 1997. In 1997 Josef was admitted into the forest products marketing doctoral program at CINTRAFOR and was awarded a highly competitive USDA Doctoral Fellowship. Josef was stricken with Multiple Sclerosis in 1991 and the progression of the disease forced him to withdraw from his doctoral program in 2001. Josef touched the lives of everyone within CINTRAFOR and we will deeply miss him. ▲



of the bilateral trade statistics discrepancies appear to defy conventional explanations. Clearly a more in-depth analysis of these problematic trade flows should be conducted to determine their causes and, in the process, begin to develop recommendations to reduce these trade statistics discrepancies. Despite the difficulties associated with reconciling trade volumes (based on differences in the types of measurement systems used in different countries and the lack of timely data), we recommend that any trade statistics discrepancy analysis consider both the value of trade and volume of trade. Finally, the report provides a list of factors that

could be used to guide an analysis of trade statistics discrepancies.

In response to these findings, the International Tropical Timber Organization has studied the trade data in a number of countries. They are working with their counterparts in trade partner countries to try to resolve some of the issues raised in this Working Paper. A report of the 11 national country studies will be presented at the ITTO Council Session to be held in Yokohama Japan in December 2004. ▲

China Sourcebook: An Introduction to the Chinese Residential Construction and Building Materials Market

China's economic development over the past two decades has dramatically changed its position in the world economy. Policies to encourage international trade and stimulate consumer spending have created a booming economy and elevated China to the seventh leading trading nation in the world. While the economies of the US's other leading trading partners such as Japan and the European Union have declined or remained flat in recent years, China's GDP has generally remained greater than 5% for the past decade. Working Paper 94: *China Sourcebook: An Introduction to the Chinese Residential Construction and Building Materials Market* provides the reader with information about China's housing market, opportunities for exporters, obstacles, and competition.

Housing reforms have been a leading driver of growth for China's economy. The shift from state owned housing to private ownership relieved the government of the financial burden of providing housing and created a sizable industry. Beijing alone is calling for the development of the housing industry as a means of increasing its current 6% share of GDP in 2001 to 10% by 2010.

Between 1978 and 2000, per capita living space rose from 3.6 m² to 10.3 m². The government hopes to increase urban per capita living space to 25 m², or approximately 72 m² per household by 2005. The government expects to build 1.5 billion square meters of residential building space from 2001 to 2005.

Concrete, steel and brick have been the dominant building materials in the modern era. Wood frame construction has not seen much penetration and will likely only be attractive or affordable to upper class Chinese and the expatriate commu-

nity for the foreseeable future.

Opportunities exist for US building materials and housing companies in the Chinese market, but exporters must understand that it is a challenging market in terms of cultural barriers and complicated distribution systems. It is estimated that a growth rate of 15-30% will be sustained in building materials for several years to come, growing from US\$24 billion to \$71 billion between 2001 and 2005.

The Ministry of Construction has recently approved "green building" guidelines, and is promoting energy saving, recycled and renewable building materials. This initiative could prove to be a useful marketing tool for expanding imports of wood-based building materials. Initiatives are also being adopted to eliminate the use of clay bricks and to phase out unfinished, or shell housing in favor of turnkey residences. This policy will take effect in Shanghai by 2005 and industry experts expect the policy to expand to other cities. The policy may result in a decline in the number of small interior finish companies as construction companies expand to fill the new niche.

Quality issues are a central area of concern in China's housing industry. The National Bureau of Statistics reports that only 30% of all construction in 2000 was of "high" quality. Many Chinese consumers have expressed concern over issues regarding the safety and durability of their homes, malfunctions, and comfort. As Chinese homebuyers become more affluent and well traveled, quality and comfort are certain to become important factors in consumers' decision-making process. ▲

China's housing starts, which reportedly reached 22 million last year, were projected to grow to 26 million by 2005.



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New Publications

Working Papers

- WP95 Discrepancies in Forest Products Trade Statistics
Ivan Eastin and John Perez-Garcia. 2004. 47 pages. \$20.00
- WP94 Niche Market Opportunities for Alaskan Forest Products in Japan
Alicia Robbins, Paul Boardman, John Perez-Garcia, and Rose Braden. 2004. 54 pages. \$20.00
- WP93 Material Substitution Trends in Residential Construction 1995, 1998 and 2001
John Garth, Ivan Eastin, Jane Edelson. 2004. 63 pages. \$20.00

