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The World of Wood: Worldwide Trends and Local Impacts

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What is the saying? It's the economy stupid! Well, it is. Over the past several years there is no doubt that the global downturn has been the primary force changing the



wood products industry. These changes are easy to see and are predictable: Falling prices worldwide and massive closures of capacity both temporarily and permanently in virtually every wood products sector worldwide. The failure of the weaker players—and even some stronger players—for a variety of reasons, have found themselves too leveraged to survive a credit- and demand-constrained world.

However, underlying these massive and predictable changes are several trends that were already underway. As the wood products industry emerges, there is no doubt it will look similar in some ways and different in others.

This article looks at global trends to evaluate impacts in the west and throughout the country. It is a story of fast-moving positives and negatives with no clear answers, but clearly, global, not just local, trends are critical to the future of the U.S. industry.

A global commodity

Key to all of these changes is that wood, in its many forms and uses, is now a truly global commodity. Whether it is sourcing, manufacturing or selling products, wood products move freely



PHOTO COURTESY OF PHILL GUAY

Hardwood plywood assembly in a typical medium-sized mill in China.

around the world. No region is isolated from events in others.

A shift in demand, supply, currency or credit in any significant area affects that supply chain worldwide in some way every day. One can no longer understand pricing or customer expectations in terms of their own region; global events must be monitored.

Green: Core not a niche

Among the most important worldwide forces are the diversifying use of wood and the accelerating “greening” of demand. For many years green products, whether certified wood sources, selection of specie or choice of resin, has been a growing but specialized market. One that in many cases was difficult to justify financially.

This is no longer the case. As we emerge, the green approach will be essential to survival. What was a niche

just a few years ago is a commodity today.

For example, worldwide countries are implementing legal logging requirements. Over time these requirements will significantly alter the sources, flow and cost of wood worldwide. In the United States, changes will take place through the Lacey Act.

Lacey Act

The recently modified Lacey Act requires, on a phased-in basis, that any wood product be proven legally harvested before it can be imported into the United States. The act will present challenges, but manageable challenges, to wood sources overseas. In the short run, it may offer opportunities to U.S. landowners.

Although the Lacey Act does have some specific reporting requirements,

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at its core is the need to prove due care in sourcing wood overseas. There is no certainty on how the courts will enforce or interpret due care until a series of precedents are established by enforcement agencies and private sector initiatives. For landowners located in the United States, providing proper documentation and tracking should add little incremental cost.

The same is not true globally. Since the act involves assuring that wood is

legally harvested and traded throughout the entire supply chain, the Lacey Act has numerous cost and compliance issues offshore. Some less developed and less monitored countries, as well as importers, will need to develop tracking mechanisms to satisfy the U.S. agencies and courts. This will take time and effort.

Some areas may be more highly scrutinized, such as those areas where legal logging is frequently questioned. Everyone will have an opinion as to where the offenders are. No matter where, compliance and maintaining a documented chain of custody will add cost, but perhaps least so in the USA.

Where is the opportunity? As the act is enforced, export opportunities may emerge as manufacturers offshore seek the safety of American wood. In addition, American manufacturers that now import may also seek the safety of local wood. Business lost to imported wood could be regained.

Relative to enforcement, it is likely that private sector action will have the largest and most rapid impact. Landowners and associations will need to be proactive in demanding everyone in the import supply chain prove legal wood. That will come by pressure on enforcement agencies including specific requests and legal action taken by individuals, companies and associations.

New economic values

Beyond the issue of legal logging, a new demand for wood will have significant impacts: the emerging use of wood and wood byproducts for energy production. One cannot read an industry publication worldwide today without some company or government announcing a new biomass plant utilizing wood. In many cases and countries, various operating and tax incentives make investing in these plants even more lucrative and add a sense of urgency to act. Increased wood demand created by these plants will have a significant effect on wood demand and prices in the region, which will reverberate well outside the area.

Today, while wood demand is low, the impact of these plants may be negligible; however, as worldwide demand improves, these alternate uses will impact pricing. This will impact the entire value chain. Eventually as demand increases, wood currently used in higher value uses will end up in biomass applications, thus driving up prices in seemingly unrelated areas. The increase may be small, but it will be there. Similarly, the worldwide use of living trees for carbon sequestering is becoming an economically viable option, whether it is by selling carbon tax credits or using standing timber as a tax offset for other operations. Not harvesting, for the first time, may yield positive cash flow. Every country and situation will be different, but as car-



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Next Issue: Managing Forest Catastrophes

bon trading matures, there is no doubt that wood will have an improved economic value beyond being harvested. It is well worth watching local regulations to understand this issue as it relates to standing timber.

The bottom line is that with more uses for wood in the future, harvested or not, and with legal logging enforced, higher prices can be expected. That's good if you are a landowner. If you are a wood user, it will force you to seek wood worldwide for the best value. Just as important, you will need to continue investing in improved recovery and other lean activities to keep your costs competitive.

At the periphery of our industry as wood costs rise is the likelihood that we will begin to see investment in wood alternatives such as engineered veneer, coconut palm and oil palm, among others, as substitutes for some specific wood applications. This is undoubtedly a long-term trend, but is worth watching.

Offshore issues

As a global industry, how the offshore industry recovers will significantly affect U.S. participants.

The explosive growth of wood demand prior to 2007 resulted in a highly fragmented, opportunistic industry, particularly in China, southeast Asia, Africa and Russia. The industries there boomed with the emergence of numerous small, frequently family- or cooperative-owned companies. These small operations can survive in an environment of excess demand and lax regulatory/quality enforcement. The impact of the economic downturn has been most pronounced on these smaller companies because they have the least efficient operations and the least capital invested. In China, for example, it is widely estimated that 30-40 percent of panel mills have closed, but they account for less than 10 percent of operating capacity.

As the global wood products industry emerges, the survivors outside the U.S., and particularly in developing countries, will be bigger, more efficient, better capitalized and more competitive than they were prior to the downturn. Do not look for offshore competition to decline in these areas,

but to intensify with improved quality, flexibility and undoubtedly an interest in selling directly into the USA market. Keep an eye on your largest customers buying direct from offshore suppliers.

Finally, one of the most pronounced changes in the North American industry over the last decade has been the movement of end-product manufacturing, be it furniture, panels or other items offshore, particularly to China. While that trend has stabilized, it is well worth watching. The operations offshore, as the global economy recovers, will be bigger and more efficient. They will have expanding domestic and worldwide demand to feed. At the same time, one of the primary wood suppliers, Russia, has for several years initiated, rescinded and threatened significant tariffs on birch logs. Should that happen (2010/2011 is the most recent forecast), China will likely shift wood demand to southeast Asia, New Zealand and Africa, affecting supply and pricing worldwide. It may make China less competitive. Add that to a weakening U.S. dollar and there may be an opportunity for some companies

that have moved offshore to move back to the U.S. While maybe a long shot, it is worth monitoring. See a separate article in this issue for more depth on the issues and future of the Chinese wood products industry.

In summary

What does this all mean to U.S. companies? It means that wood, like all commodities, but perhaps more so, will become more expensive. To offset this or to take advantage of it—depending on where you are in the supply chain—means seeing your company as a global player and responding globally, not locally. When you do that, the complexities are more, but manageable, and the opportunities are well, global. ♦

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