Exporting Private Wood Products to China

A Washington-Based Economic Introduction With Market Resources

December 2012
Exporting Washington wood products to China

Acknowledgements

Without the help of economists, wood product managers and forest professionals this report would not be as comprehensive. These people provided original ideas and explanations so the rest of us can understand.

At the top of the list is Xiaoping Zhou, Ph.D., a Research Economist for the US Department of Agriculture (Forest Service) in the Pacific Northwest Research Station, who compiled the list of questionnaire responses from nine visiting Chinese business log importers. That list is at the heart of this publication.

Jean Daniels, Ph.D, Forest Economist at the Forest Service’s Pacific Northwest Research Station, researched and wrote the 2005 in-depth history of contemporary Pacific Northwest log exports. Her report was among the first to compile and identify the special historic factors that forged the strong economic bond between the Pacific Northwest and China.

DNR’s lead economist David Chertudi, envisioned the rich analytical value of the sparse spreadsheet report. Mark Calhoon, director of international Trade and Economic Development program for the state’s Dept. of Commerce, emphasized the essential importance of exporting to foreign customers.

Although several corporate representatives chose to remain anonymous, their personal observations added first-hand pros and cons of entering the world’s export market.

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**Cover:** The three photos emphasize China’s major impact on the Pacific Northwest’s wood products industries. **Right photo:** At the Port of Longview, a loader snatches newly harvested logs from a truck and deposits them in a bulk log ship, bound for Asia. Port of Longview/Photo. **Bottom left:** Workers at an eastern China port inventory logs that were sent from numerous nations around the Pacific Rim **Top left:** At this time most imported wood is used to set the concrete for residential construction. However, some nations — such as Canada — are promoting completely wood-built homes (such as this 1,000 square-foot home) for China’s newly prosperous middle class.

**Web Site:** http://www.dnr.wa.gov/

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Abstract

This report explores historical and contemporary experiences and statistics of exporting logs to China. The centerpiece is an exclusive survey of Chinese wood product trade representatives who answered specific questions regarding product preferences, trade protocol recommendations and economic predictions. There are also numerous brief descriptions on specific aspects such as China’s economy, the value of exported products and the history of log exports from the Pacific Northwest. The final pages offer links to other in-depth log export reports and six websites dedicated to log and Washington exports.

Introduction

Following a recent three-day visit to the Pacific Northwest, nine representatives of Chinese wood import companies responded to a brief questionnaire on their experience, observations and recommendations for U.S. sellers of wood products. The answers were brief, but collectively they provided valuable insights into the goals and needs of wood importers during China’s economic expansion.

In 1980, China entered the Pacific Northwest log and lumber trade when the price for logs was between $400 and $600 per thousand board feet (mbf). But by the early 1990s log sales to China dwindled to a few million board feet after the prices climbed as high as $800 mbf. With Japan willing to pay more for the regal Douglas fir and related species for the strength and elegance of exposed grains, China was out-priced by Japan’s competitive consumption. When Japan fell into a two-decade recession beginning in the late 1990s, it curtailed log imports and export log prices plummeted.

In 1978, the heads of the Chinese communist state reversed its economic policies and established reforms to encourage foreign trade. Leader Deng Xiaoping reportedly said: “Poverty is not socialism. To be rich is glorious.” It paid off and in 2012 China was ranked the world’s second largest national economy.

The country is now challenged to back up its industrial achievements with the infrastructure necessary to sustain economic growth. On top of the list is housing for predicted 350 million rural residents who will move to the industrial cities to take part in their country’s economic success. In 2009 Russia, which had been China’s largest wood supplier, increased its export tariffs for Siberian logs. China responded by seeking forest resources in other Pacific Rim countries. New Zealand, the first country to sign a timber trade agreement. It was quickly overwhelmed. About a year later British Columbia and U.S. West Coast states were selling hundreds of millions of board feet of logs to China. Since then, Russia reduced its log export tariff to qualify for membership in the World Trade Organization and recoup its business with China.

Meanwhile, China is struggling with the inflation of its over-heated and fast-growing economy. It is also closely watching the sources of its trade wealth — Europe, the U.S. and other nations in the West — as they contend with recession. But at the same time China is encouraging its historically penurious population to reverse centuries of disciplined frugality so its domestic economy can eventually support its new consumer product industries.
# Table of Contents

Acknowledgements .............................................................................................................. 2  
Abstract and Introduction .................................................................................................. 3  
Table of Contents .............................................................................................................. 4  
Exporting wood products to China from the Pacific Northwest .................................... 5  
The extra economic boost from exporting wood products ............................................. 6  
Export or Die! ..................................................................................................................... 6  
From isolated socialism to middle class capitalism  
  - Recent history of China’s economy ................................................................. 7  
  - China’s growing middle class ........................................................................ 7  
  - China’s future economic growth and needs .................................................. 7  
  - China’s own forests ......................................................................................... 8  
  - China’s wood industry and import logs ....................................................... 8  
  - Pacific Rim wood producers ........................................................................ 8  
  - Chips and other wood products ................................................................... 9  
  - Early players in Washington’s timber partnership with China .................... 9  
Survey: Chinese wood buyers ................................................................. 10-12  
Interviews  
  - Sawmill manager ......................................................................................... 13  
  - Investment forest manager .......................................................................... 13  
  - Private forest log export planner ............................................................... 14  
  - Private international wood products consultant ....................................... 15  
Appendices  
  A. Major export information websites ............................................................... 16  
  B. Companies that import logs ...................................................................... 17  
  C. Works cited .................................................................................................. 18  
  D. Other Chinese export references ................................................................. 19
Exporting wood products to China from the Pacific Northwest

Before statehood and the economic reigns of Boeing and Microsoft, the timber and forest products industry provided family incomes as a foundation of Washington’s economy. In the 20th Century both Oregon and Washington became world leaders in the growth of softwood trees and the production of dimension lumber, shakes, plywood, utility poles and pulp. After the Columbus Day windstorm in 1962, log exports became economically viable. (Daniels, 2005)

Originally, exporting logs was a peripheral opportunity to sell hundreds of millions board feet of blown-down timber which would succumb to tree rot lying on the ground. Both Japan and China were among the many countries that purchased Washington log exports. In a few years Japan became the primary customer for Pacific Northwest logs by pricing other buyers out of the market. By 1988, Washington’s export log volume reached 2.8 billion board feet through 86 exporting businesses. Japan then fell into its Lost Decade and grappled with a lingering recession. By 2006 the total log export volume fell to only one fifth of its high mark (541 mbf) with only 11 export businesses operating. (2010 Washington Mill Survey, 2012)

Also threatening Washington’s wood export business were forested countries around the world who had signed free trade agreements. In a major example of retail competition, Canada filled America’s hardware stores and lumber yards with cheap lumber. Later in 2010 free trade with China gave both the U.S. and Canada a wood customer with an epic appetite. The 1978 economic reforms gave birth to China’s middle class, transforming the nation into a worldwide force of macroeconomics. China proved that even a disciplined socialist state can become bourgeoisie when per capita income rises above subsistence levels.

Washington had an early start in doing business with China. In 1990 the total U.S.—China business was $18 billion. Washington’s share was $2.5 billion or about one seventh.

Washington is China’s second largest U.S. export partner, after California. China spends more than $6 billion each year on Washington products ranging from logs to Almond Roca® candy. (abcnews, 2011)

As a relatively new player in global economics, China’s top priority is housing, 350 million new homes over 20 years. Wood is used to make molds for buildings made of concrete which is China’s primary construction material. Canada recently sponsored a campaign to convince new Chinese home buyers that wood is more desirable.

Exported wood in million board feet

Wood exports from the U.S. West Coast to


Export ban on logs from public lands

It is important to note that Federal law prohibits exporting timber originating from public lands. This report is focused exclusively on exporting private timber to China. Until 2010, Russia, endowed with the world’s largest total area of forests, was China’s main source for wood products. In 2009, Russia enacted an ill-advised 25 percent tariff to protect its own nascent lumber industry. While helping sawmills, the tariff raised the price of Russian wood beyond many Asian customers — including China. Russian tariffs directed China to the Pacific Rim for wood products.

Chinese log buyers rate Alaska’s softwoods as high quality (See survey on pages 10-12). British Columbia won extensive trade agreements because of the province’s large supply. China did not flinch at B.C.’s mountain bark beetle-infested forests. Rather, the infestation guaranteed a low price for the wood.

In the first six months of 2012, China’s purchase of wood products slowed with its GDP. It imported 15 percent fewer logs from Russia, New Zealand and the U.S. Prices for foreign and domestic wood were down 14 percent. However, China purchased a record level of domestic hardwood logs this year from Vietnam and other tropical nations. The International Monetary Fund forecasts that Chinese domestic consumption and private investments will improve in the second half of 2012. And log prices have been begin increasing before the end of the year. (Ekstrom, 2012)
Interview: The extra economic boost from exporting wood products

Interview with Mark Calhoon director of the state’s International Trade and Economic Development Division for the Washington State Department of Commerce.

In 2010 China elevated Washington’s timber industry. During a Pacific Rim wood-buying spree, China bought hundreds of millions of board feet of Washington’s logs which had waited on stumps for years for an uptick in log prices. With those purchases, China boosted the state’s foreign trade.

The best part of those transactions was the foreign trade, said Mark Calhoon, the Senior Managing Director for the International Trade and Economic Development Division, Washington State Department of Commerce.

He explained that there are local benefits from selling a Washington-based product or commodity domestically, but in the big economic picture, selling to foreign customers contributes a higher proportion of wealth.

“Exporting is a direct job creation activity,” says Calhoon, whose division’s mission is to encourage export whenever possible. Calhoon calls for creating a “culture of exporting” in Washington state. “We want to produce something no one else can provide.”

Calhoon emphasized that it’s preferable to add a higher value in at least one phase of a product’s manufacturing process, and Washington’s mill owners would agree. When logs are exported, they aren’t processed by domestic mills, a major source of employment in the wood products industry.

“There is always an effort to develop an industry with a value-added step,” Calhoon said. “One of the goals is to develop technology for higher value production which in turn creates higher-paying wages.”

Washington is the largest exporting state in the country, due primarily to the presence of Boeing — the largest exporter in the U.S. About 16 percent of Washington’s business (Gross Domestic Product) is related to exporting and importing (compared with 13.1 percent nationally). “One third of all jobs in Washington are related to (export and import) trade jobs,” Calhoon said.

Washington’s other major exporting sectors include agriculture (#2) which accounts for 15 percent of the state’s exports and wood products at #3 (including lumber, logs, pulp, paper and chips) which have been robust in the last couple of years, he said, adding that exporting raw material is not always an economic negative. “There are some exceptions such as the high prices paid” by China for Pacific Northwest logs, which offset some of the loss of revenue from sawmills, he said.

He also said that exporting raw materials does not necessarily exclude exporting finished products. For instance, the U.S. buys logs and finished lumber from Canada.

“You have to remember that 95 percent of the world’s consumers live outside the United States.”

Export or Die!

After World War II, Great Britain was broke and burdened with massive re-building costs and war loans. In desperation the government promoted exporting British-made goods to maximize receipts of foreign currencies.

The government called it “Export or Die” to emphasize the dire need for trade surpluses. Companies that manufactured exported goods were given a priority for limited resources like steel.

One of the most successful exporting industries was the automotive sector. Even into the 1950s very few Brits could afford the MGBs, Anglias, Vauxhalls and Austins its factories produced. Instead, they were targeted for the U.S. market.
From isolated socialism to global free trade economics

Recent history of China’s economy

Since 1978, China has reformed its economy from a poor socialist country to an assertive open market economic miracle with annual 9.7 percent growth. (The World Bank, 2012) (In the third quarter of 2012, China’s growth slowed to 7.4 percent, according to its National Bureau of Statistics.) Its Gross Domestic Product grew from $140 billion to $6 trillion. Between 2000 and 2009, China’s growth has contributed 20 percent of the world’s trade growth. Most of that growth was focused on export and investment. Economic scholars define China’s economic system as “state capitalism” which is nominally a socialist government that controls privately owned assets.

Now the country is shifting to a consumer-fueled economy. In developed countries consumer domestic consumption is 70 percent of the annual GDP. China’s is only 37 percent. (xin, 2011). China hopes that a stronger domestic market will add stability to its fast-growing economy. At this time, it is vulnerable to the world-wide financial crisis. So, the Chinese government has launched campaigns to increase consumer domestic spending and reduce saving. In 1990, China’s average per capita national income was around $350. Within a decade, there was a threefold increase to $1,000. Average salaries between 2009 and 2011 grew to $8,400. Urban populations are growing 2.3 percent per year as Chinese poor leave rural areas and migrate to the cities’ prosperity.

If China’s average national income continues rising at an annual rate of 8 percent, by 2030 the country’s average personal annual income wage could reach $20,000 by 2030, surpassing Taiwan and Korea. (National Bureau of Statistics of China, 2011). The rural communities are have not joined this prosperity. In 2011, the average per capita disposable income of an urban household in China was 21,810 yuan ($3,355). The per capita cash income of rural households was 6,977 yuan (about $1,073). The rural poor earn less than one-third of the salaries of urban workers.

China’s growing middle class

In just 20 years China’s middle class grew from virtually zero to 300 million — more than the total population of the United States. According to some economists, China’s middle class household earns between $10,000 and $60,000 (in US dollars). In January this year, China’s urban population finally surpassed the rural population. The middle class is entrepreneurial, well-educated and sought by multi-national corporations. Salaries in state-run companies have tripled in the last 10 or 15 years. In the 1990s, few Chinese had cars. Today many do, a factor helping General Motors to recover from bankruptcy a few years ago. (Wang, 2012)

“They want everything Americans have,” notes Helen Wang, author of an economic study on China. The new Chinese middle class shop and consume a lot more than the earlier generations. They consume a lot more and are drawn to luxury brands. They shop for American brands for the aura of quality. They want quality and sophistication.

The middle class could grow to 700 to 800 million, more than half of the entire population. (Wang, 2012)

China’s future economic growth and needs

Logs and lumber are needed to build housing for large cities, which expect 350 million rural migrants to arrive over the next 20 years [Wang, 2012]. Without more urban housing, rural poor cannot move to cities to find higher-paying jobs.

Roger Redifier, an Aberdeen, Washington-based log export broker, believes China’s industrial growth alone has increased China’s demand for wood. The one-time housing spurt for migrants will be superseded by ongoing “quality” consumption (2010 Washington Mill Survey, 2012)

Some analysts believe that a portion of China’s new middle class will soon evolve into higher affluent classes. These households prefer luxury products. For instance, wood houses attract more prestige than the government housing projects made of concrete. Wood products can develop into a sizable niche market. (Cintrafor, 2006)

One market professional anonymously opined that part of the new middle class has already progressed into China’s version of the wealthiest “1%”

Previously, as a nation of peasants, China maintained social harmony through frugality and fierce discipline. Now government officials urge citizens to save less and spend more to protect export industries from periodic downturns of global markets.

The symbol of the new middle class was displayed metaphorically in the blare of music, splash of colors and the cast of thousands at the ceremonies of the 2008 Beijing Summer Olympics.

Wood products are already a luxury alternative for the new middle class. They are willing to purchase hand-crafted cabinets whose utility value is only a fraction of the retail price. The wealthy 1 percent is a small fraction of China’s total population but could be a huge market for the United States.
Exporting Washington wood products to China

**China’s own forests**

Before 1978, China was considered “forest poor” with only one-fifth the world average per capita of forest coverage. During the first 30 years of Communist Party rule, forests were exploited, depleted and unmanaged, particularly during the Great Leap Forward (1958-1961), a stimulus to increase agricultural and industrial production.

During the last 30 years, China tried to increase its forest coverage with mixed results. It wasn’t until the country legislated land management — after a series of devastating floods — that forest protections started to take hold. In 1973-1976, the forests covered 13 percent of all land area compared to 21 percent today. However, China’s forests still cannot supply China’s wood product industries, nor achieve independence from imported wood.

As the “world’s wood workshop,” China is a major and growing producer of finished and semi-finished wood products (plywood, furniture, etc.). China is increasingly reliant on imported logs. For instance, it exported $3.34 billion (US dollars) worth of wood products in 2000 and $15 billion in 2009. In the same time period China’s wood imports grew from $3.4 billion to $7.5 billion. *(Robbins, Cintrafor Spring 2012)*

**China’s wood industry and import logs**

China’s wood products business model emphasizes domestic wood processing while importing logs. China has three reasons for doing so:

**Weak domestic forests**—Due to over-harvesting after the 1949 revolution, China’s own forests are still too undeveloped to sustainably supply its own wood industries.

**Jobs**—The need to capture as much employment as possible throughout the entire wood products value chain is important to China. From the large mills on Russia’s border (built when most of China’s logs came from Siberia) to its furniture factories, China’s choice industries are labor intensive and value-adding.

**Mill residues**—While wood residues (sawdust, shavings, chips) that are a by-product of sawmills are an important source of woody fiber for its numerous pulp and paper mills, China has had to increase its purchases of imported chips. *(Kozak and Canby, 2007)*

**Pacific Rim wood producers**

Establishing and strengthening wood markets is becoming a secondary global industry for China. In 2010 when China added the North American west coast in its search of wood sources, ports in Tacoma, Port Angeles, Everett, Astoria and Portland opened or re-opened facilities to handle bulk log ships. Trees were cut down from dozens of real estate investment and other forest properties to capture unexpected profits in sales to China. Many logs were even shipped by container from ports that did not have facilities for log ships. *(2010 Washington Mill Survey, 2012)*

In 2011, China imported a record 7 million tons of hardwood chips, mostly from Vietnam. Thailand, Indonesia, Malaysia, Cambodia, Chile and Brazil sent smaller volumes of chips. Around the Pacific Rim, these countries (and Brazil) are now the leaders in providing logs and wood to China.

**Vietnam** After the long war of the 1960s and 1970s, much of Vietnam’s forest areas had been chemically damaged and denuded and were susceptible to erosion. A species of eucalyptus was brought in to “regreen” the countryside. It was soon discovered that eucalyptus trees were also a good fast-growing hardwood. Today Vietnam is China’s main supplier of wood chips. About half of the 2.2 million acres of trees grown in plantations are eucalyptus trees which are harvested on a five-to-seven year rotation. *(Thu, Pham Quang, 2010.)*

**Chile** — With good climate and productive soil conditions, Chile is ranked 13th among the world’s softwood producers. At this time, Chile (with Maylaysia, Cambodia and Brazil) is a ranking supplier for China, but is developing fast-growing eucalyptus and acacia plantations. *(Ekstrom, December 2011).* Due to low wages, these countries operate some of the highest margin and lowest cost processing plants in the world. *(Taylor, 2012)* As one indication of Chile’s growing role in the world’s wood products industries, Chile exported 1.1 million board feet of dimensional lumber and logs to Washington State in 2010. *(U.S. Department of Commerce)*

**New Zealand** — When Russia added a high tariff on its export logs, New Zealand became a major log exporter. It is the second largest exporter to China (after Russia) and already exports 90 percent of the softwood logs bought by India. Its total annual log exports is 423 million board feet. *(Taylor, 2012)*
Exporting Washington wood products to China

Chips and other wood products

In the Chinese buyers’ survey (pages 10-12), respondents said that they are willing to buy chips or lumber in addition to logs. As with all negotiations with Chinese businessmen, the price of a product is a primary consideration whether you are selling exquisite hand-crafted cabinetry or lowly chips.

China has a strong need for wood chips to feed new pulp mills. Most of it (96 percent) is hardwood that comes from Vietnam, Thailand and Indonesia. In 2011, 4 percent (300,000 tons) of the total volume was softwood chips from Australia, Russia, the United States and New Zealand. Most of the chips were harvested from fast-growing hardwood plantations that Vietnam developed over the last few decades. In 2011, China imported 7 million tons, about 40 percent more than 2010.

Pulp mills in China are in an expansion mode. One effect has been the increased price of imported wood chips — reaching $180 per ton in 2011, which was 22 percent higher than 2010. (Ekstrom, 2011)

Chips and other wood products

While searching for plants to rehabilitate its de-nuded hills, Vietnam discovered fast-growing eucalyptus trees are ideal for its climate and soils. Vietnam soon became the primary supplier of hardwood chips to China.

Early players in Washington’s export/import partnership with China

Ambassador Gary Locke: the state’s former governor helped double exports to China

In September of last year, the U.S. Ambassador to China, Gary Locke, announced the signing of the Trade and Investment Initiative, which is charged with increasing bilateral trade between the two countries. But long before the initiative, Locke worked to improve trade relations with China. After graduating from Yale Law School, the Seattle native worked for an international law firm, where he co-chaired the firm’s China practice. As the first Chinese-American governor (1997-2005) of Washington (and in the United States), Locke led 10 trade missions for the state (including several to Asia), and strengthened economic ties between China and Washington state. His work helped the state more than double exports to China to $5 billion a year. Since then Locke has served as U.S. Secretary of Commerce and was appointed as the U.S. Ambassador to China in 2011. (U.S. Department of State)

CITIFOR: Beijing-financed, U.S. company was once the state’s largest log exporter

This is not the first time China has had a strong interest in Pacific Northwest wood. In the 1980s, China International Trust and Investment Corp (CITIFOR), a Beijing-financed company, was a timber owner and exporter with offices in Seattle. China didn’t buy wood when prices were high, but Citifor was a player in the wood products sector. It owned timber land, a Canadian pulp mill, part of the Grays Harbor log dock and a sorting yard. Formed in 1984 to establish a stable log supply, the company lost money until it hired a former Weyerhaeuser log-export marketing director. At first it served China’s log needs. But by the end of the decade Chinese companies couldn’t outbid Japanese log buyers. By 1989 Japanese and South Korean customers accounted for 60 percent of the market. At its peak Citifor’s sales totaled $98 million. (Nogaki, 1990)
Survey: Chinese wood buyers

Following a recent three-day visit last March to the Pacific Northwest, nine representatives of Chinese wood import companies responded to a brief questionnaire on their experience, observations and recommendations about doing business in the United States. All answers were brief. But collectively they provide valuable insights into the goals and needs of wood importers during this peak boom period in China’s historic economic expansion. This table categorizes the responses to more than a dozen questions regarding their work negotiating purchases of logs to China.

<table>
<thead>
<tr>
<th>Anonymous Chinese log importers</th>
<th>Do you represent a few or most Chinese log import businesses?</th>
<th>Will China’s economic slowdown affect log imports?</th>
<th>How much import logs will China purchase in 2012?</th>
<th>Compared to other countries, how do you rate U.S. wood?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Most Chinese log import businesses</td>
<td>Yes</td>
<td>34 million m³ (14.4 billion board feet)</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>One or a few Chinese log import businesses</td>
<td>Yes</td>
<td>39 million m³ (16.5 billion board feet)</td>
<td>Consistent grades, constant and reliable shipments</td>
</tr>
<tr>
<td>3</td>
<td>One or a few Chinese log import businesses</td>
<td>Yes</td>
<td>36 million m³ (15.3 billion board feet)</td>
<td>Alaska wood is of good quality.</td>
</tr>
<tr>
<td>4</td>
<td>One or a few Chinese log import businesses</td>
<td>Yes</td>
<td>40 million m³ (17 billion board feet)</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Most Chinese log import businesses</td>
<td>Yes</td>
<td>35 million m³ (14.8 billion board feet)</td>
<td>Pinus radiata imported is not very good. Alaska Pine is of good quality.</td>
</tr>
<tr>
<td>6</td>
<td>One or a few Chinese log import businesses</td>
<td>Yes</td>
<td>35 million m³ (14.8 billion board feet)</td>
<td>Have little knowledge of American wood</td>
</tr>
<tr>
<td>7</td>
<td>Most Chinese log import businesses</td>
<td>Yes</td>
<td>32 million m³ (13.6 billion board feet)</td>
<td>Alaska pine is of good quality.</td>
</tr>
<tr>
<td>8</td>
<td>One or a few Chinese log import businesses</td>
<td>Yes</td>
<td>38 million m³ (16 billion board feet)</td>
<td>All species can be used for interior purposes (furniture, mill-work, cabinetry and flooring.</td>
</tr>
<tr>
<td>9</td>
<td>Most Chinese log import businesses</td>
<td>Yes</td>
<td>39 million m³ (16.5 billion board feet)</td>
<td>U.S. wood standards are more stringent.</td>
</tr>
</tbody>
</table>

Continued on next page
## Survey: Chinese wood buyers

<table>
<thead>
<tr>
<th>Anonymous Chinese log importers</th>
<th>Which countries do you import from?</th>
<th>How does China primarily use its imported wood?</th>
<th>Does the high tariff on Russian logs affect the volume of logs purchased from the U.S.?</th>
<th>China's Gross National Product is very strong. Do you see it reversing? Why and when?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Southeast Asia countries</td>
<td>Manufacturing wood products such as furniture.</td>
<td>No</td>
<td>Maybe.</td>
</tr>
<tr>
<td>2</td>
<td>Southeast Asia, East Africa</td>
<td>Furniture, plywood</td>
<td>Yes</td>
<td>China's economic fundamentals have not changed much, the economy is projected towards the target regulation of the development.</td>
</tr>
<tr>
<td>3</td>
<td>Vietnam, Burma</td>
<td>Manufacturing wood products such as furniture.</td>
<td>Yes</td>
<td>Yes, there exists the economic life cycle in market development.</td>
</tr>
<tr>
<td>4</td>
<td>Southeast Asia countries</td>
<td>Furniture</td>
<td>No</td>
<td>Yes. China inevitably has been affected by the financial crisis.</td>
</tr>
<tr>
<td>5</td>
<td>South America, Russia</td>
<td>Manufacturing wood products.</td>
<td>Yes</td>
<td>Yes. Because international market is shrinking. Time is uncertain.</td>
</tr>
<tr>
<td>6</td>
<td>Southeast Asian countries</td>
<td>Manufacturing wood products.</td>
<td>No</td>
<td>Maybe.</td>
</tr>
<tr>
<td>7</td>
<td>Southeast Asian countries</td>
<td>Housing construction.</td>
<td>Yes</td>
<td>Yes. China's economic growth rate has slowed for the moment. About 2020.</td>
</tr>
<tr>
<td>8</td>
<td>Southeast Asian countries</td>
<td>Housing construction, such as floors.</td>
<td>Yes</td>
<td>Yes. Because recently the products' demand declines.</td>
</tr>
<tr>
<td>9</td>
<td>Southeast Asia, East Africa</td>
<td>Manufacturing wood products.</td>
<td>Yes</td>
<td>No. China's economy has not had complete development. Currently China is facing an economic slowdown.</td>
</tr>
</tbody>
</table>
### Survey: Chinese wood buyers

<table>
<thead>
<tr>
<th>Anonymous Chinese log importers</th>
<th>Are you interested in importing wood chips from the U.S.?</th>
<th>Are you interested in lumber and other finished wood products from the U.S.?</th>
<th>How does China try to prevent its large purchases from affecting the price of log imports?</th>
<th>Would China export more logs, or even lumber, if the yuan rises in value?</th>
<th>How can the U.S. help you purchase logs?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Yes, if the price is premium.</td>
<td>Yes</td>
<td>Develop alternative domestic species.</td>
<td>Although the price is relatively cheap, but the domestic cost may increase.</td>
<td>Supply market price information, and import and export policies</td>
</tr>
<tr>
<td>2</td>
<td>Yes</td>
<td>Yes</td>
<td>Reduce the purchases.</td>
<td>Temporarily</td>
<td>Give us the price ASAP.</td>
</tr>
<tr>
<td>3</td>
<td>Yes</td>
<td>Yes</td>
<td>Import substitution.</td>
<td>Maybe</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Yes</td>
<td>Yes</td>
<td>U.S. export policy is too strict, does not favor the Chinese importers.</td>
<td></td>
<td>Provide corporate brochure.</td>
</tr>
<tr>
<td>5</td>
<td>Yes, at reasonable prices and good quality</td>
<td>Yes</td>
<td>Develop alternative timber.</td>
<td>Procurement can be stable within a certain time period, but difficult to adjust in a short time.</td>
<td>Provide good quality and cheap wood</td>
</tr>
<tr>
<td>6</td>
<td>Yes</td>
<td>Yes</td>
<td>Reduce demand.</td>
<td>Need to consider the domestic and foreign policy.</td>
<td>Provide high-quality logs.</td>
</tr>
<tr>
<td>7</td>
<td>Yes</td>
<td>Yes</td>
<td>Have no idea.</td>
<td>May be relatively cheap. Exporters would prefer not to cooperate with Chinese importers.</td>
<td>Promptly notify us.</td>
</tr>
<tr>
<td>8</td>
<td>Yes</td>
<td>Yes</td>
<td>Change the procurement strategy or direct overseas investment and then re-export.</td>
<td>If the lumber in the United States meets the company’s production needs, we may increase quantity.</td>
<td>Hold log fairs in China.</td>
</tr>
<tr>
<td>9</td>
<td>Yes</td>
<td>Yes</td>
<td>Increase the use of wood.</td>
<td>Maybe.</td>
<td>Reductions in tariffs and restrictive measures.</td>
</tr>
</tbody>
</table>
**Interviews: Exporting to China, observations and experiences**

Before China appeared on U.S. shores in 2010 with billions of dollars, the U.S. was busy selling wood to Japan. The following interviewees were approached about their experiences exporting wood to Japan. Nearly all requested anonymity to protect corporate proprietary information.

**Export lumber trade requires retooling but stabilizes lumber demand flow**

Below are the responses of a sawmill manager in Washington on his years of exporting lumber to Japan.

**When did you decide to look into exporting lumber to Japan?**
33 years ago.

**What type of changes were made?**
Made an 8-foot stud mill into a 13-foot cutting mill for Japan.

**How long did it take to convert?**
Three months.

**How would you describe the success compared to domestic business?**
There was some success in the beginning. However, over the last 33 years the sawmill has been in and out of the export market many times.

**Is there a limit on production or will the export customers buy all you can produce?**
From time to time the export customer will not buy all we can produce.

**Are you producing more now?**
No.

**Are you employing more or fewer employees?**
A few more.

**What investments in equipment or plant renovation were required?**
New dry kilns, new planer, new lumber banding machine, new paper wrap machine.

**What was the total cost of re-tooling?**
One million plus.

**Do you feel shifting to an export market has made your business more stable?**
Yes.

**Specifically what prompted you to switch to an export market?**
Additional markets.

**Would you like to share a few insights that you’ve learned through this experience?**
The export market over the years has had extreme highs and lows.

**Have you exported lumber to China?**
Very little.

**Investment forest manager**

**Exporting logs from real estate investment forests can add profit to long-term goals**

Below are the responses of an independent manager for a real estate investment forest owner in Washington on his years of experience exporting lumber to China.

**Approximately what volume of timber was sold?**
About 800,000 cubic meters (339 mmbf) per annum.

**Is selling logs to China a common or rare occurrence?**
95% in our case.

**Was the price especially good?**
Just market prices. On stumpage level (unharvested logs) would only be OK on average, not especially ‘good.’

**Were there other factors that prompted the sales?**
No, just commercial interests.

**Was timber harvested ahead of schedule (rotation) to take advantage of China’s purchase price?**
No

**Describe the process of negotiation.**
Just typical for export sales – sometimes easy, sometimes hard.

**Are you planning more export sales to China?**
Yes.

**What were some important lessons you learned about doing business with Chinese?**
Nil, we have been doing this for over 10 years.

**Does the Pacific Northwest have advantages or disadvantages in selling wood to China?**
The quality is good but that is factored into the price. The PNW’s biggest advantage is consistency of supply. The main disadvantage is probably long logs.

**How do the Chinese regard wood from Washington state?**
Acceptable.

**Were you approached by the Chinese? Or did you respond to a general offer?**
We have been operating in China for awhile so we used existing contacts.

**Beginning in 2010 China’s role as a major timber purchaser of the Pacific Rim countries grew dramatically. Do you have any reflections or insights that would be of interest to other forest landowners or managers?**
If anyone or organization wants to be involved in the Chinese log market, they need to understand that’s it’s a very big market full of opportunities. But it’s also a very competitive environment. Price discovery (the interactions of buyers and sellers to determine the price of commodities) and species source switching can occur much faster than other markets.
Exporting Washington wood products to China

Interviews: Exporting to China, observations and experiences

Interview: Private forest log export planner
Exporting adds stability to wood products sector but requires commitment

This export planner emphasized the importance of establishing strong and long-lived relationships with Asian customers. He has negotiated log sales to the same importers for several years.

“Selling to Asian customers takes a little more time than domestic customers,” he said. “Preparation costs are about 10 to 15 percent higher due to extra time for sorting and bucking (cutting a tree to specific log lengths).”

He noted that the volume of exported logs and lumber rose and fell at about the same rate.

He said Japan builders favor the Pacific Northwest’s Douglas-fir because of its strong structural quality and beauty for interior aesthetics. Related Pacific Northwest species (hemlock, spruce) can be sold for multiple purposes, such as structural integrity.

He said that Asian customers also favor “supply reliability.” They want to be assured that a supplier can provide lumber or logs whenever they are needed.

“You have to be committed,” he explained. “They are looking for sources of import logs when the construction market offers opportunities.”

He said that cutting for foreign dimensions has not been an obstacle. Often the Japanese are willing to take lumber that has been cut into 2x4s.

Exports gives his company stability. When the domestic market slips into a low ebb, foreign markets keep the mills operating and employees working, he says. He indicated that laying off employees can be disruptive. When the market picks up again, laid off workers may have moved on to another job.

He talked of exporting as a reliable part of the overall business of selling logs.

In regards to China, he sees it as an expanding market and expects more in the future. At this time China’s main wood suppliers are Russia and New Zealand. But there is room for more suppliers because Russia’s capacity is limited by its infrastructure and New Zealand is probably producing at its top capacity.

Besides China and Japan, he sees possibilities for growth in Asia. He has had good experience already with South Korean log buyers. “It’s not a large market but it’s consistent.”

Exporting has proven to be valuable for his company. “It’s helped us operate at a level higher than we would have otherwise.”

The bulk of logs shipped from the Pacific Northwest to China are used to make trim for house interiors and molds for the concrete exteriors (left). As the middle class gains economic confidence, more home buyers are opting for houses built entirely of wood (right).
Interviews: Exporting to China, observations and experiences

Interview Bob Flynn, Director of International Timber for Resource Information Systems, Inc. (RISI)

China’s housing shortage ‘gross undersupply of softwood’ from U.S., Canada

As a consultant on international wood products, Bob Flynn watched China’s government tighten the purchase of imported logs back in November. But the way he sees it, the slowdown “is more of a problem for its clients, not China.” That means if the rest of the world wasn’t embroiled in the repercussions of the financial crisis, China would be busily buying more logs and lumber.

“Right now China has an urgent need for wood, especially to build housing for the hundreds of millions of rural Chinese.” Flynn described China’s housing problem as one of “gross undersupply.”

Rural Chinese are migrating to cities to escape the economic gap between urban and rural populations. Only cities can promise high-paying jobs in China’s economic and industrial renaissance.

Since China itself is not burdened by the global financial crisis, it can adjust to a recovery faster than its trading partners, Flynn noted. China is also facing a quickening inflation rate — a sign that the country’s economy is over-heating. But eventually China will return to exporting wood products.

Flynn outlined several reasons why the Pacific Northwest should expect Chinese log and lumber customers for several years.

New Zealand is a major wood supplier near China with huge forests. But New Zealand is already at its sustainable capacity.

Russia has the largest total forested area in the world. But after harvesting nearly all of the accessible trees (low-hanging fruit), Russia now must spend years building roads and rails deep into Siberia.

China’s own forests were nearly completely cut down during the Great Leap Forward (1958 -1962), a failed economic campaign to turn China into a modern industrialized communist state. China has re-planted those areas but they will not be fully productive for decades. Even when China’s own forests return to peak production, they will not be able to supply all of China’s needs.

About 10 percent of China’s imported softwood is used to make furniture. But softwood is the wood of choice for commercial buildings and homes. “They have no other options,” Flynn said.

He doesn’t believe there are many obstacles hampering trade between China and Canada and the U.S., such as different measurement systems. “Canada has been able to sell them 2x4s, 2x6s and 2x8s,” Flynn said, adding that it shouldn’t be expensive for mills to convert to metric or other measurement standards.

So, Pacific Rim nations (including the U.S. West Coast and Canada) shouldn’t expect the current downturn to last long.

Also Flynn believes that the upcoming change of government — about every 10 years in China — will provide stability in the short term. According to Chinese political tradition, very few changes are made during the transitions of a new government. They don’t generally halt old projects or order new policies. Based on that tradition alone, import wood purchases should continue.
Exporting Washington wood products to China

Appendix A

Major export information websites

Washington State Mill Surveys
DNR’s biennial wood products mill survey from 1968 to 2010. Includes statistics and tables on the state’s log export sector from 1968 to 2010 (not all editions are online)

http://www.dnr.wa.gov/BusinessPermits/Topics/EconomicReports/Pages/obe_washington_state_millsurvey.aspx

Export Your Products
Exporting products from Washington is a major campaign of the state’s Department of Commerce.

One program, called the China Accelerator, provides a business representative in Shanghai with office support and assistance from a consulting manager.

http://www.choosewashington.com/business/export/Pages/default.aspx

The Center for International Trade in Forest Products
Based at the University of Washington School of Environmental and Forest Sciences, CINTRAFOR offers a quarterly newsletter and numerous research papers and reports for sale.

http://www.cintrafor.org/

Timber Trends
Produced monthly by The Campbell Group, a Timberland Investment Management Organization. The group offers a free online newsletter which includes articles on a wide range of timber issues, including log exports.


Forest Service Pacific Northwest Station
A source for USDA Forest Service publications and reports. Especially informative is the annual ‘Harvest, employment, exports, and prices in Pacific Northwest forests’

Exporting companies that import logs
(Represented by responders to survey on pages 10-12)

**Changzhou Lingdian Wood Co.,LTD.**
Rongfeng Village, Henglin Town, Changzhou (213103), Jiangsu, China
sales@chinalingdian.com
www.chinalingdian.com
Phone: 0086-519-88506883  Fax: 0086-519-89809567

**Changzhou Sunny Decorative Material Co., Ltd**
Cuibei Industry Park, Henglin Town, Changzhou, Jiangsu, CHINA
webmaster@sen-ni.com  http://www.sen-ni.com/
Phone: 0086-519-67892553 Fax:0086-519-67892551 MSN: jessexxz@hotmail.com

**Changshu Qicheng Wood Processing Field**
Xinglong village of East Central, Changshu City, Jiangsu Province, China
Phone: 13801575250  Fax: 0512-52800056

**Changshu Haode Furniture Co., Ltd.**
Zhouhang, Haiyu Town, Changshu City, Jiangsu Province, China
hard@hard-glass.com
Phone: 86-512-5259-8008  86-512-5259-8228
Fax:86-512-5259-9077
Exporting Washington wood products to China

Appendix C

Literature cited

Exporting wood from the Pacific Northwest to China


Extra economic boost from exporting wood produ


Recent history of China’s economy


China’s growing middle class


China’s future economic growth and needs


China’s own forests


China’s wood industry and import logs


Pacific Rim wood producers


Chips, other wood products


Ambassador Gary Locke


Citifor


Exporting Washington wood products to China

Appendix D

Information sources for exporting wood products to foreign markets

- Washington Dept. of Commerce publication with assistance and information for all businesses
- Washington Department of Commerce objectives and programs for assisting businesses
- “Opportunities for US Building Materials Markets in China Identified”
- US China Build Program Results in $13 Million in Sales to China
- US Export Fact Sheet
- Washington State Department of Agriculture International Marketing Program
  [http://agr.wa.gov/Marketing/International/]
- Washington State China Relations Council
  [http://www.wscrc.org/]
- U.S. Commercial Service China: Market research, trade events, trade leads
  [http://export.gov/china/]
- Foreign Exports and the Washington state economy
- Washington Department of Commerce
  [http://www.choosewashington.com]
- International Trade Administration publications
  [http://trade.gov/publications/]
- Forestry Products export.gov
- Wood Products trade snapshot
- Farrell, Diana; Gersch, Ulrich A. and Stephenson, Elizabeth. “The value of China’s emerging middle class
- By 2014 China will become world’s top chip importer
- International Woodfiber Report June 2012
  [http://www.risiinfo.com/content-gateway/internationalWoodfiberReport.html?action=downloadPDF&path=aXdyL2N1cnJlbmVwMjAxMi82LzEzL0J5L2N1cnJlbi5vZ3htdXN0b3JuZQ==]
  [https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html]
- Surge in Russian log exports. Probably Not.
- Doing business in China
  [http://www.doingbusiness.org/data/exploreeconomies/china]
- About China
- Economic benefits of Washington’s wood industry
  [Eastin, Ivan; Ganguly, Indroseel; Sasatani, Daisuke; Mason, Larry and Lippke, Bruce (2009) Executive Summary “Economic Contribution of the Forestry and Wood Processing Sectors in the State of Washington.”
- Recent economic news on China trade
- Global and Chinese economic slowdowns
  [International Monetary Fund, July 21, 2012 “Global Downturn Contributes to China Slowdown.”
- Statistics of Pacific Northwest Wood Products
- Vietnam’s Eucalyptus tree plantations
  [http://www.fao.org/DOCREP/005/AC772E/ac772e0s.htm]