

Meeting China's Growing Demand: Import Trends and Issues

(with Focus on Asia-Pacific Supplying Countries)

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Presented by

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**F O R E S T
T R E N D S**

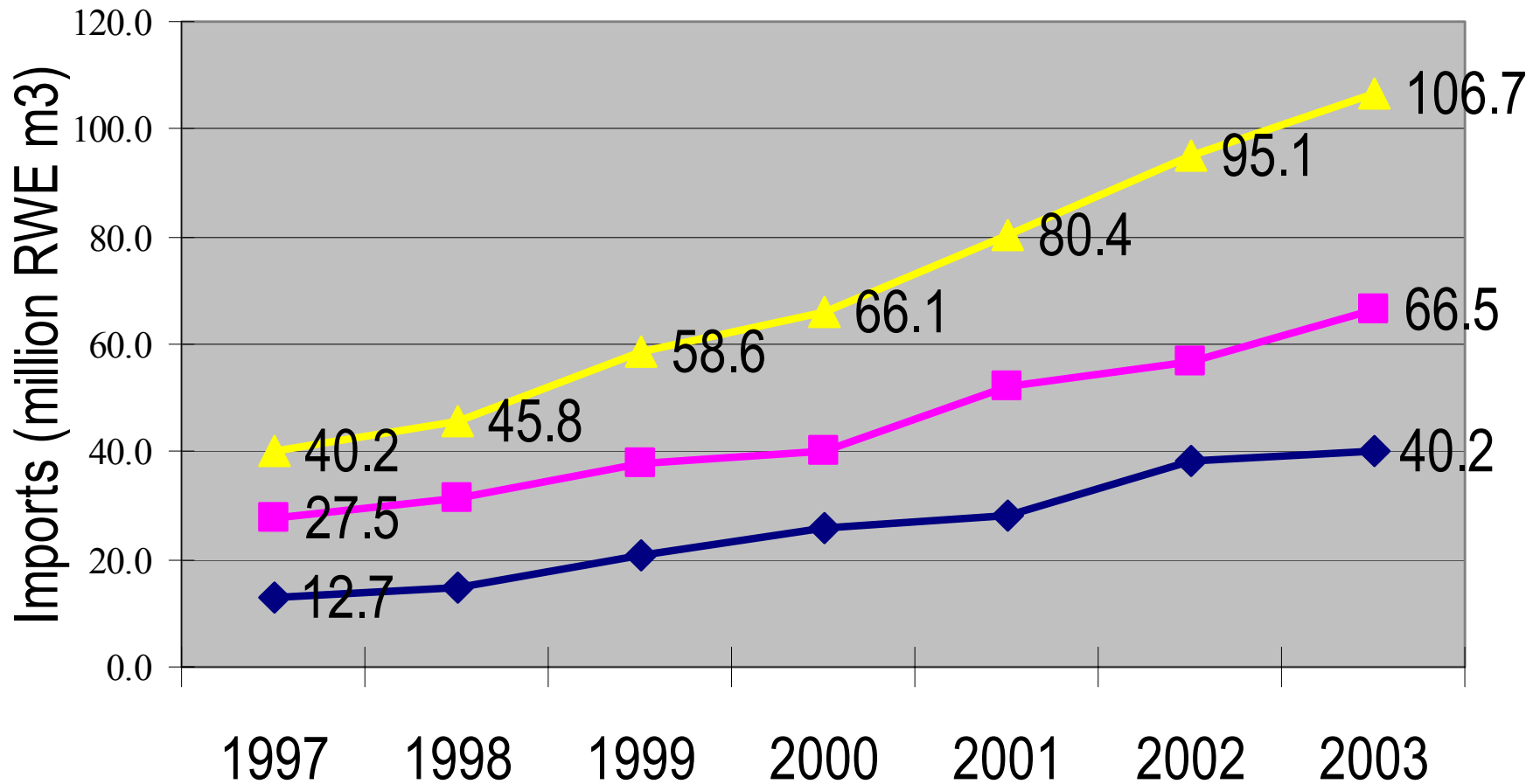
Forest Trends Full Reports Available

- Chinese Imports
 - **Overview:** “China’s Forest Product Imports 1997-2002: Analysis of Customs Data with Emphasis on Asia-Pacific Supplying Countries”
 - **Working Paper:** “China’s Forest Product Imports, 1997 – 2002: Trade Data by Product, Country of Origin, and Port of Entry.”
- Additional analyses
 - Structure of export-oriented forest industry in key Asia-Pacific countries
 - Projections of China’s forest product demand and domestic supply
 - Livelihood implications of China’s growing demand
 - Policy issues and constraints to community production in China

Data Sources

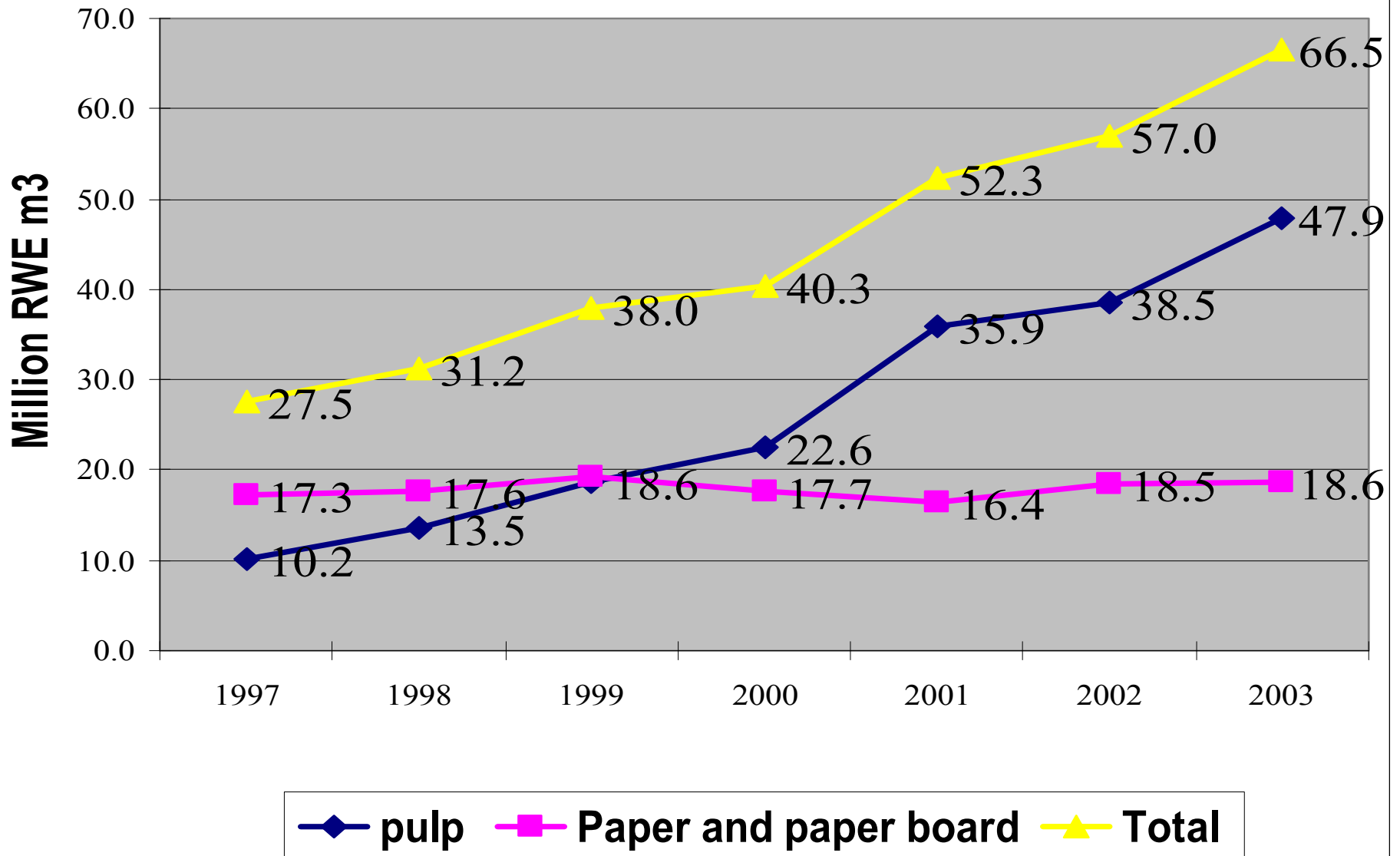
- Chinese Imports: China's Customs, World Trade Atlas 1997-2003
 - 42 Chinese ports
 - Focus on Asia-Pacific region (Russia, Myanmar, Thailand, Malaysia, Indonesia, PNG, Vietnam, Laos, Cambodia)
- Major products examined
 - Timber products: logs, lumber, plywood, veneer, wood chips
 - Pulp & paper
 - Pulp (including wood pulp and waste paper)
 - Paper and paper products

China's Forest Product Imports: 1997-2003

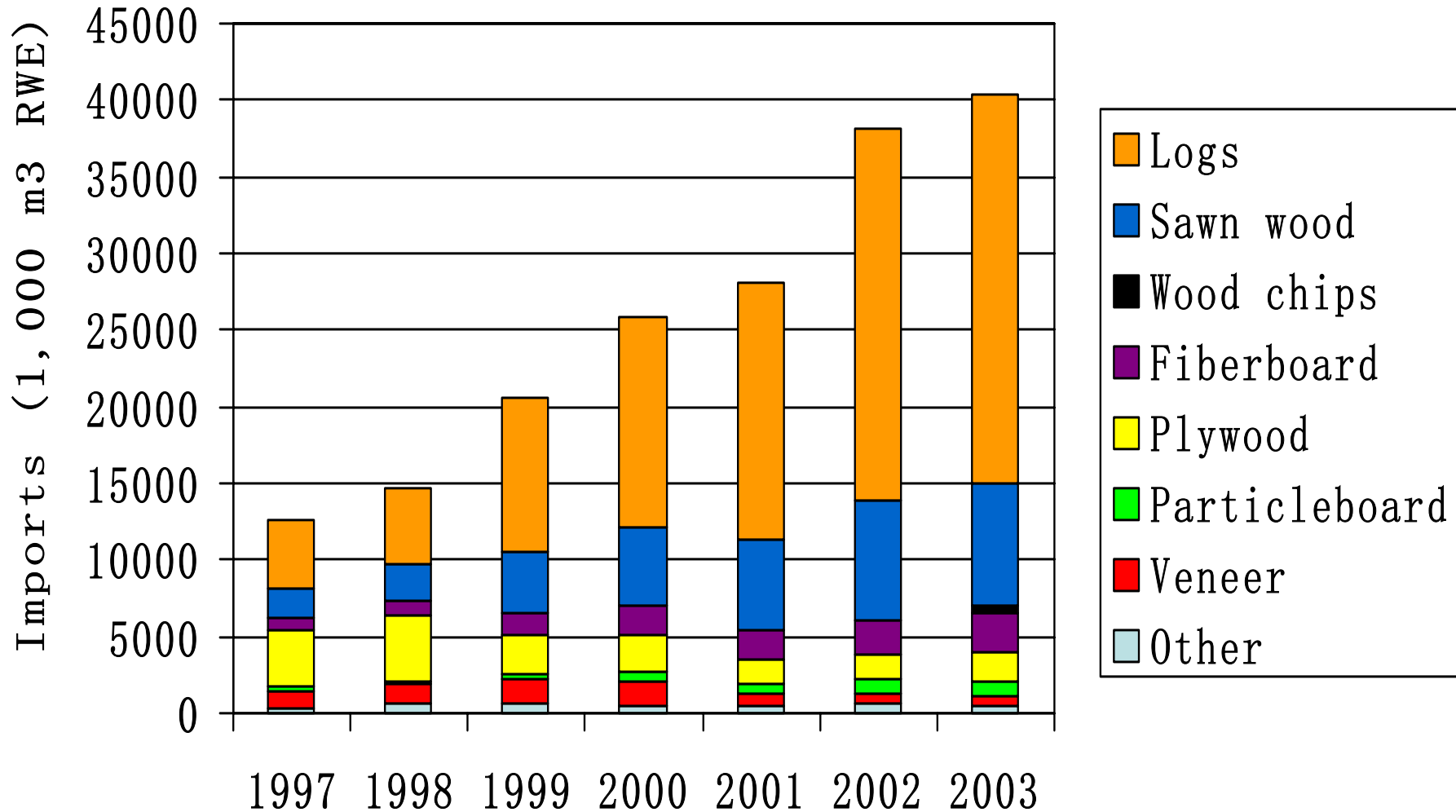


◆ Timber products ■ Pulp & paper ▲ Total forest products

Trends in Pulp and Paper Imports

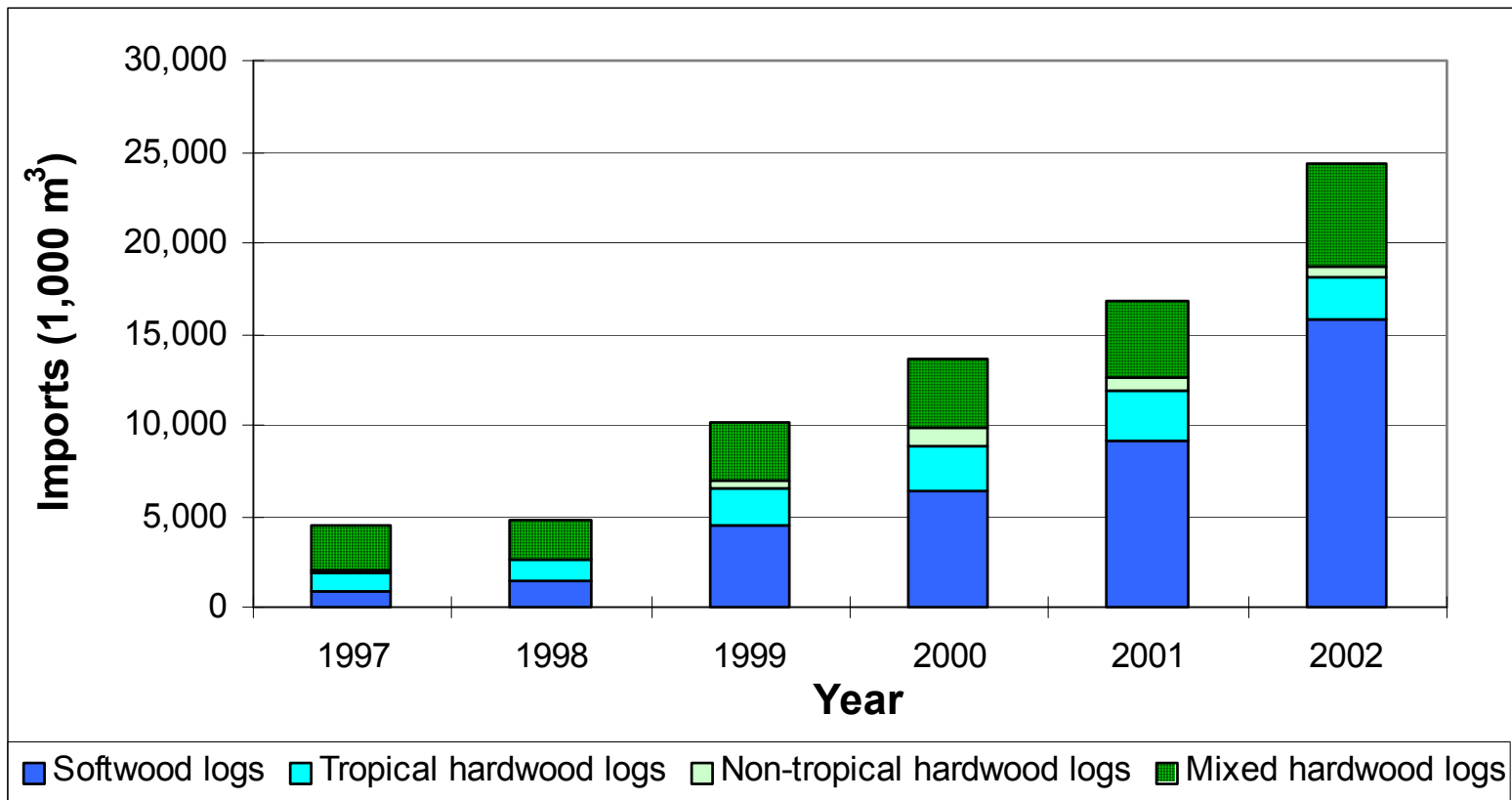


Trends in Timber Imports: By Segment



Timber Import Trends – From Secondary to Primary Products

Logs & lumber account for the largest portion of timber import growth 1997-2003 (and 78% of total import value)



Import Updates: June 2004

- Continued growth in overall imports during the first half of 2004
- Imports of major timber products by June 2004:
 - Logs: 13 million m³ ----- up
 - Lumber: 3.1 million m³ ----- up
 - Plywood: 380,100 m³ ---- down
 - Veneer: 56,400 m³ ---- down
- Russian logs stagnating, lumber increasing

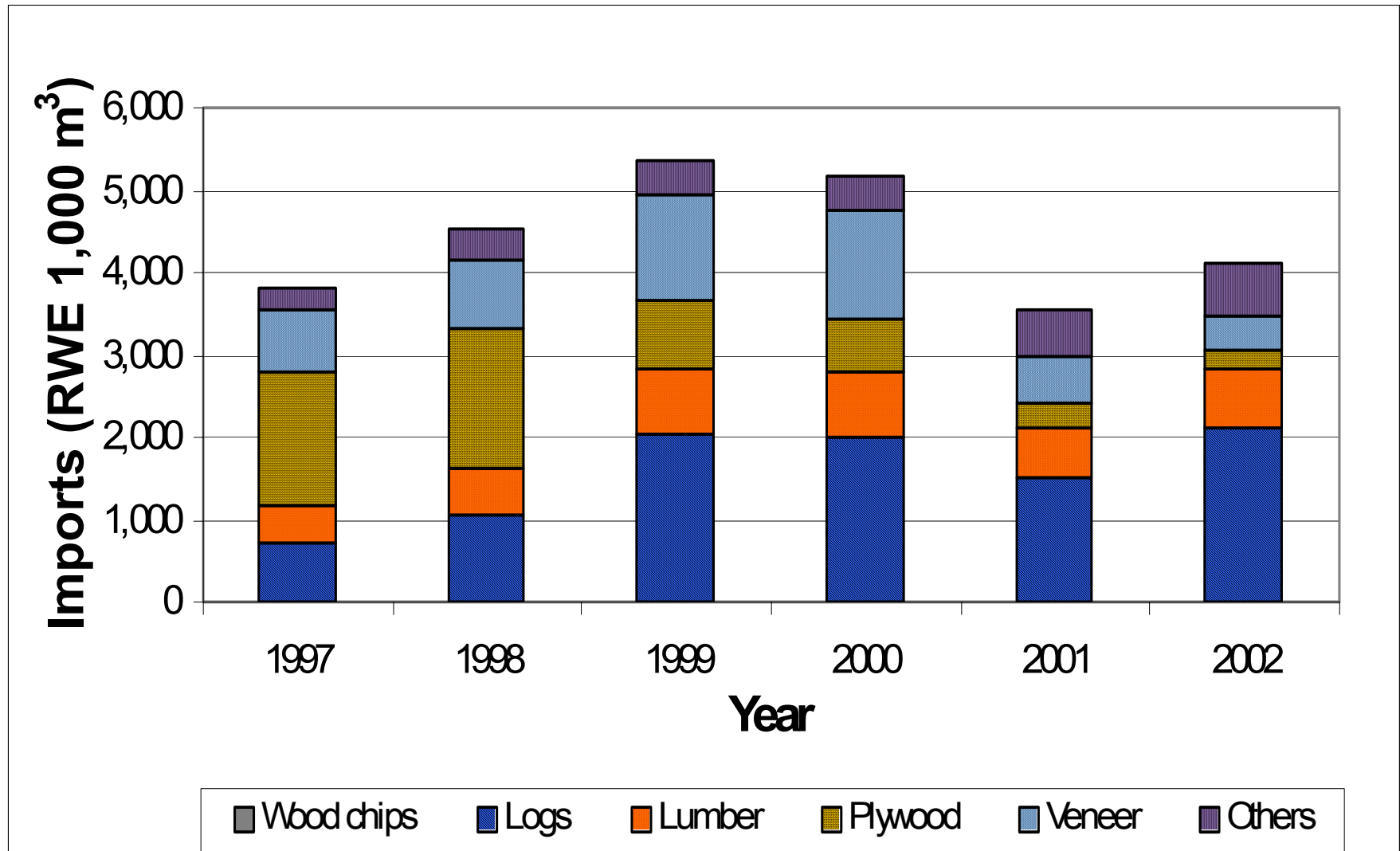
Top 5 Suppliers, Each Segment: 2003

Timber Products Overall	Logs	Lumber
<p>1. Russia (38.0%) 2. Malaysia (12.3) 3. Indonesia (8.3%) 4. New Zealand (5.8%) 5. Thailand (3.8%)</p>	<p>1. Russia (56.4%) 2. Malaysia (11.5%) 3. New Zealand (7.5%) 4. PNG (5.4%) 5. Gabon (3.7%)</p>	<p>1. Indonesia (19.7 %) 2. US (12.3%) 3. Thailand (12.2%) 4. Russia (10.2%) 5. Malaysia (7.9%)</p>
Plywood	Wood Pulp	Paper
<p>1. Indonesia (67.0%) 2. Malaysia (17.2%) 3. S. Korea (3.8%) 4. Japan (2.5%) 5. Cambodia (2.3%)</p>	<p>1. Canada (23.2%) 2. Indonesia (20.3 %) 3. Russia (15.2 %) 4. Brazil (10.6%) 5. US (8.7%)</p>	<p>1. Taiwan (14.2%) 2. S. Korea (13.3%) 3. US (10.9%) 4. Indonesia (8.5%) 5. Japan (6.8%)</p>

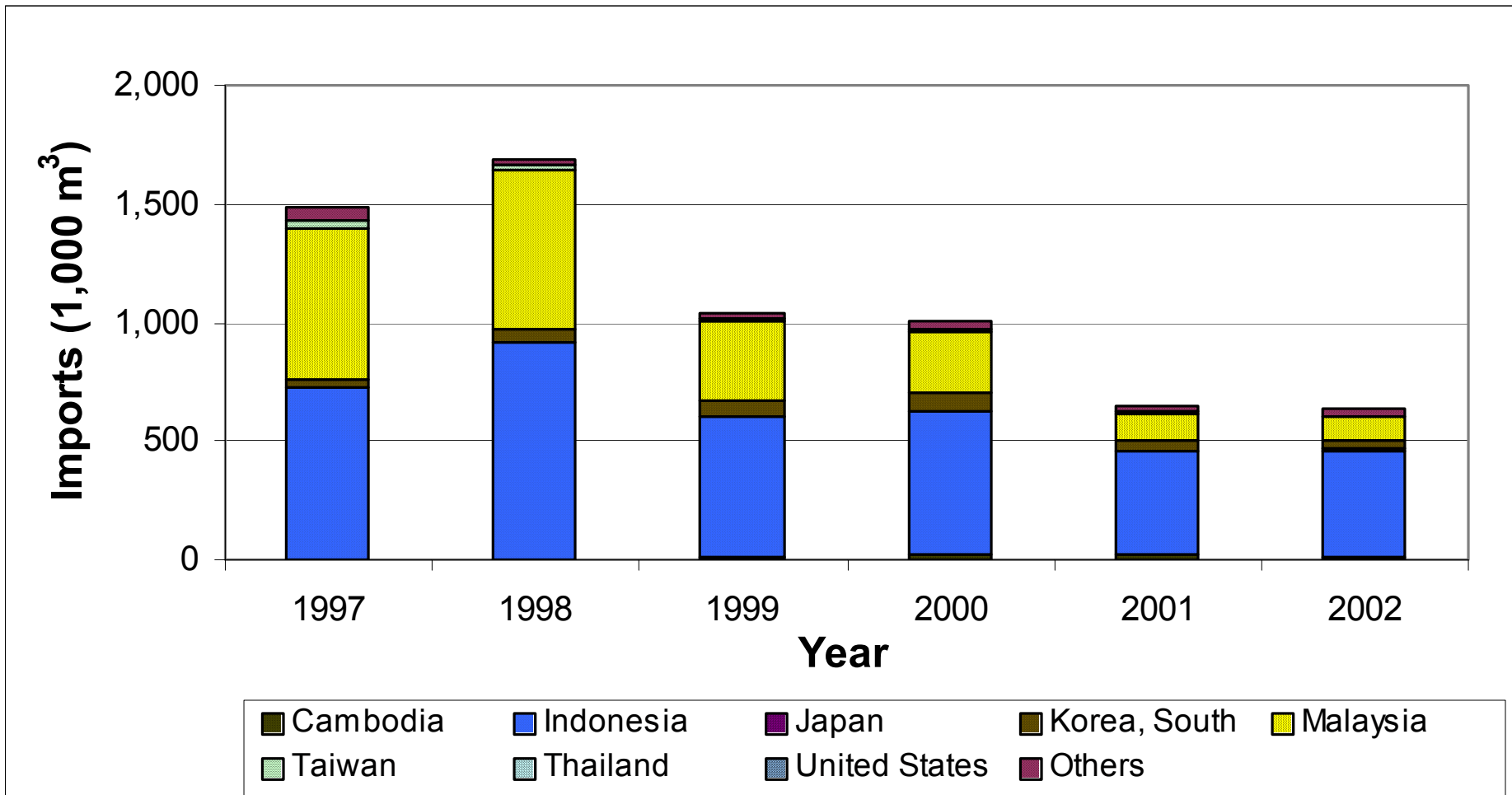
Asia-Pacific Suppliers: Roles and Trends

Country	Volume (million m ³ RWE)(%)	Main Products in 2002	Trends in Main Products over Period Studied
Russia	20.24/21.28	SW logs; lumber, pulp	Logs dominate, strong growth in all
Indonesia	10.07/10.58	HW lumber, pulp	Lumber, pulp up/ paper, plywood down
Malaysia	4.3/4.52	HW logs and lumber	Logs slow growth/plywood, veneer down
Thailand	2.48/2.6	HW lumber	Lumber up/paper down, pulp small but growing
PNG	1.15/1.21	HW logs	Logs up by five times
Myanmar	0.948/1	HW logs and lumber	Timber products (official) up three times
Cambodia	0.129/0.14	Veneer, plywood	Veneer dropping
Laos	0.019/0.02	HW logs and lumber	Slow rise, logs and lumber

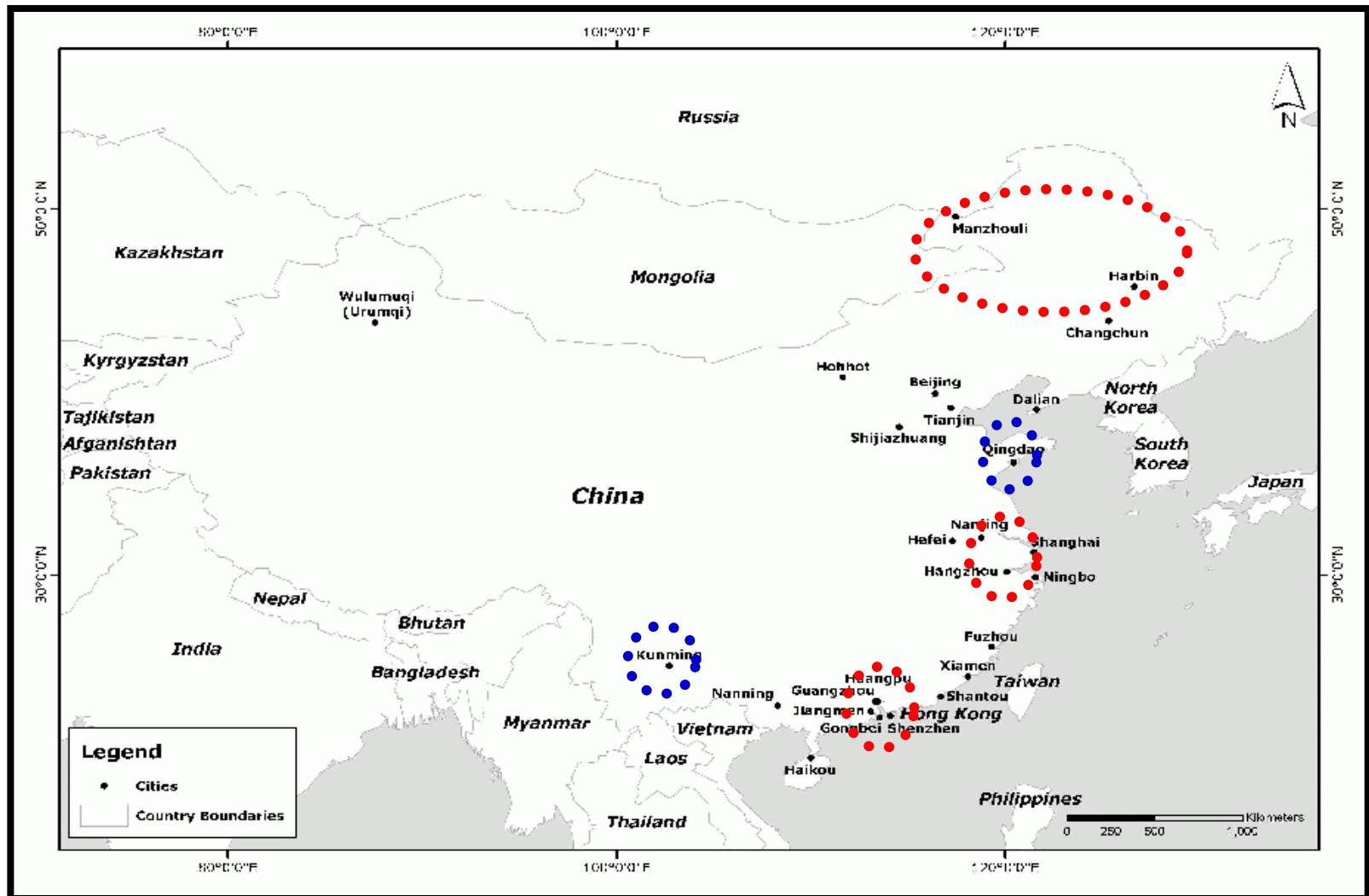
Trends in Imports From Malaysia: From Panels to Logs



Suppliers of Plywood



Port of Entry Trends



PNG Trends

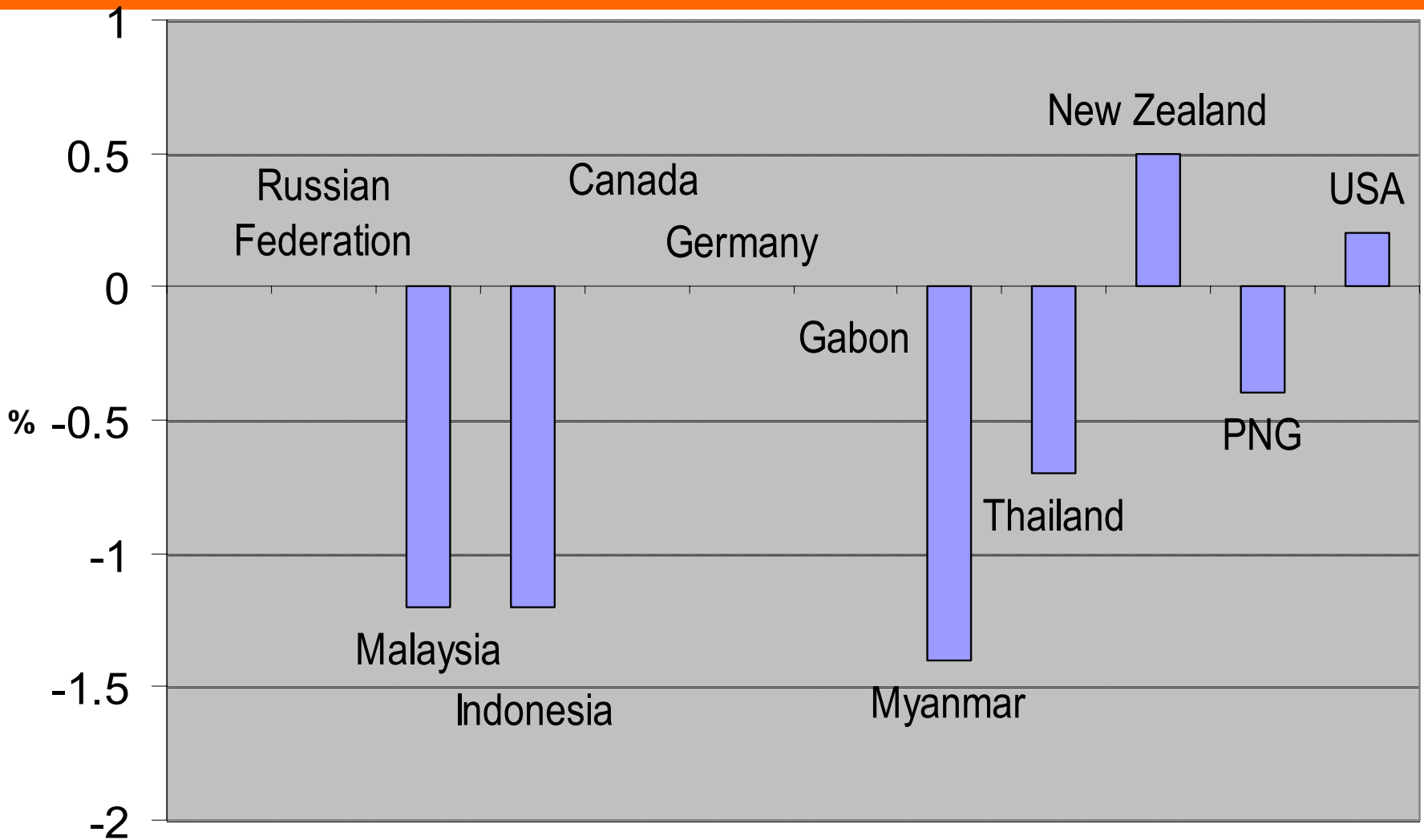
Product	Volume in 2002	Main Ports of Entry in 2002
Timber Products	1.15	Nanjing
Hardwood Logs	1.13	86% Nanjing, 6% Hangzhou, 3% Shenzhen, 2% Shanghai, 2% Haikou
Veneer	0.021	100% Shanghai

Impacts of Booming Chinese Demand

Driving:

- unsustainable exploitation, forest degradation and conversion, in critical, threatened biodiverse forests
- “boom and bust” business
- illegal logging and/or trade in many forest producer countries
- threatening the livelihoods of forest dependent people in the region
- At same time:
 - Driving investment – mostly plantations and processing
 - Producing cheap wood products for the world
 - Driving some producers to other markets (India)

Forest Loss in Top Supplier Countries: 2001



Source: FAO:2001, WWF

Driving Unsustainable Exploitation, Illegal Logging

- Russia (Sheingauz, Lebedev, Lankin)
 - 38-70% harvesting illegal
 - High grading, overcutting, no replanting the norm
 - Massive fires (> 1,000,000 hectares) increasing in frequency
 - Ribunan Hijau # 2 exporter (with a public reputation of promoter of illegal logging)
- PNG (Bun, Collins)
 - Overharvesting: only 18 / 72 concessions cut at legal 40 year rotation,
 - Estimated years remaining of wood at current rates: 10-15
 - “Salvage” harvesting on old sites, fires and conversion increasing
 - Forest Department review (2003-4): illegal logging, illegal labor, corruption pervasive
 - Ribunan Hijau # 1 owner of concessions and exporter

Driving Unsustainable Exploitation, Illegal Logging

- Myanmar (Kahrl, Su, Weyerhaeuser)
 - Kachin State most involved in China trade
 - Huge trade discrepancy (Myanmar-Chinese statistics)
 - Harvesting organized by militants, financed and staffed by Chinese
 - Perhaps 10 years of timber remaining at current harvesting rates
- Indonesia (IPB)
 - 70-90% timber, 60% pulp illegal
 - Huge trade discrepancies
 - Estimated 10 years remaining of lowland MTH forest
 - Active harvesting in national parks, protected areas

Driving Unsustainable Exploitation, Illegal Logging

- Malaysia
 - Maintained more natural forest than most, very small illegal logging, concerns of Illegal trade (from Indonesia)
- Thailand
 - 70% of lumber considered illegal, laundering wood from Myanmar, Cambodia, Laos
- Cambodia, Laos, Vietnam, Philippines,
 - Natural forests already lost, limited trade with China

Some Challenges: Towards Sustainable Forests and Development

- Avoiding overcapacity (in China)
 - gap between legal supply and capacity (e.g. the Indonesia pulp problem)
 - Encouraged by government subsidies to industry (>\$700 million), and investor exuberance
- Improving domestic production in China
 - Reform plantation program
 - Remove policy barriers to sustainable forest management
- Improving investor due diligence (around region):
 - ensuring banking and finance to SFM and legal companies

Some Challenges: Towards Sustainable Forests and Development

- Address underlying governance problems in supplying countries
- Addressing illegal logging and trade
 - Improve transparency, customs, independent monitoring
 - Adopting new tracking technologies, (e.g. log tracking)
 - Encouraging certification, chain of custody
 - Engage (and implement) FLEG processes
- Encouraging, applauding, good business and good business models



Thank You

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solutions)**

