



SHIFTING PATTERNS IN TRADE

World Resources Institute

Forest Legality Week

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Legal and Economic Drivers in Trading For Logs and Panel Markets

- Trade Flows; United States and China and the rest of the world
- Forest Legality Requirements and “Demand Chill”
- Other Economic Disincentives and Barriers – the “Trade War”
- Publicity

Trade Flows; United States and China

- U.S. HW Log Exports (Countries Ranking Based on 2017 Data)

Jan-Aug 2018 U.S. Log Exports

- China	\$418 million
- Canada	\$ 82 million
- Viet Nam	\$ 36 million
- Japan	\$ 23 million
- Italy	\$ 17 million
- Germany	\$ 9 million
- Spain	\$ 4 million
- UK	\$ 3 million
- South Korea	\$ 6 million
- Taiwan	\$ 7 million

Trade Flows; United States and China

- China Hardwood Log Imports (Up 21.47% from 2017 to YTD 2018)
Ranking based on 2018 import data (Metric Tons)

	■	<u>2017 HW Log Imports</u>	
- Papua-New Guinea		617,511 MT	14% increase in 2018 YTD
- Solomon Islands		460,856	12% increase
- U.S.		306,338	19% increase
- Mozambique		258,407	1% decrease
- Equatorial Guinea		121,054	105% increase
- Nigeria		212,166	12% decrease
- Cameroon		70,026	86% increase
- France		86,149	19% increase
- Russia		121,313	21% decrease
- Laos		30,,990	173% increase

Trade Flows; United States and China

- In 2016, the U.S. imported \$1.814 billion of hardwood plywood from the world
- In 2016 China exported \$1,062 billion to the U.S. and in 2017 dropped to \$812 million
- China's hardwood plywood exports to the US have declined 59% over the same period in 2018 from 2017
- Viet Nam's are up 177% in 2018 over 2017,
- Indonesia's up 105%,
- Cambodia up 69%,
- Russia's up 14 %.
- Canada is up 14%.

Trade Flows; United States and China

- Softwood Plywood imports from China jumped 731% in the first 7 months of 2018 compared to 2017
- Radiata pine decorative plywood panels imports surged
- From \$25.9 million to \$215 million (Jan.-July 2017 and 2018)
- A trajectory to reach \$500 million for 2018
- U.S. Commerce Department has initiated a determination that these products are within the scope of the AD/CVD order in place against China

Trade Flows – Macro View

- These shifts are impacting the countries sourcing logs, the mix of hardwood and softwood logs going into China as well
- The U.S. is still a major source for hardwood logs to China
- China's softwood log imports are increasing with New Zealand its largest supplier
- Radiata pine is 45% of the softwood logs into China and New Zealand is its largest radiata log supplier
- China is the world's largest wood panel producer which sector continues to grow, the largest exporter of these products, and the mix of HW and SW panels is shifting
- Why?

Forest Legality Requirements and “Demand Chill”

- The mix of the sourcing countries remains relatively stable
- The countries that are at high risk for illegal logging continue to be major suppliers with the U.S. the notable exception
- There are legal frameworks in the EU and the US addressing illegal wood
- Weaker frameworks in Japan and Australia
- In sum in the major wood product consuming markets, there are laws that address illegal wood
- All of the recent market research data that I've seen suggests that sustainably sourced wood, harvested legally, along with the individual species characteristics are the primary factors for specifiers in our markets BUT.....
- Price trumps everything in these consumer and commodity markets

Other Economic Disincentives and Barriers

– Enforcement of Fair Trade Laws

- The reason we've seen a dramatic decline in decorative hardwood faced plywood from China are the AD/CVD duties the U.S. imposed after the ITC ruling
- Those duties are 183% and 194% which is a powerful incentive to circumvent
- Two changes in trade have been immediately observed: decorative radiata pine panels surged. The Commerce Department is in the process of closing that loophole.
- Other countries in the region are increasing their exports which raises the issue of circumvention through transshipment and relabeling the Chinese made product.
- There has been some enforcement in those circumstances
- These trade effects create significant externalities in determining wood sources and whether those are legal
- New Zealand is easy.... The rest now becomes even more challenging

U.S. – China Trade Negotiations

- The 10 and 25% duties have caused disruption in some segments of our industry
- The AD/CVD orders are the major drivers
- The negotiations on abiding by the WTO fair trade rules is critical but impacts the entire U.S.

Publicity

- Until someone gets caught and the attendant publicity raises public awareness, changes in behavior are virtually impossible
- Prices, low prices, drive the market
- Lumber Liquidators is the case in point
- Most people believe LL was only about formaldehyde because of the 60 Minutes story
- But it was Lacey Act that resulted in the first criminal conviction and probation for 5 years. In addition the CEO/Founder left and the stock value plummeted.
- There was no federal formaldehyde rule then, but CARB slapped their wrists for mislabeling compliance (\$2.5 million in 2016)
- Last week the civil case by consumer plaintiffs was settled for \$36 million and LL's stock hit a 52 week low a week later

Vigilance and Notoriety

- If the 20th Century was the struggle between democratic freedom and totalitarianism, then the 21st century appears to be a struggle between the U.S. and China and the competing economic and political models of each.
- It will be more than just the enforcement of a legal framework.
- ENGO's and Civil Libertarians operate in an inhospitable environment