USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Required Report - public distribution

Date: 1/25/2005

GAIN Report Number: AS4044

Australia

Solid Wood Products

Annual

2004

Approved by:
Andrew C. Burst, Agricultural Counselor
U.S. Embassy

Prepared by:
Mike Darby, Agricultural Specialist

Report Highlights:
Softwood log and softwood lumber production are forecast to increase by five percent in 2004/05. These increases are roughly in-line with growth trends in recent years. Historically high levels of building activity driven by strong economic growth and historically low interest rates are driving these increases.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Canberra [AS1]
[AS]

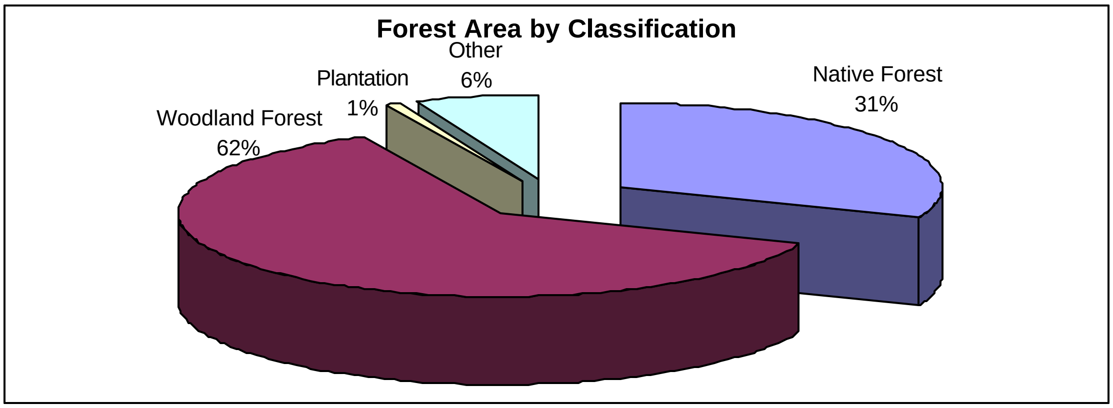
Table of Contents

SECTION ONE: SITUATION AND OUTLOOK

Production

Forest Area

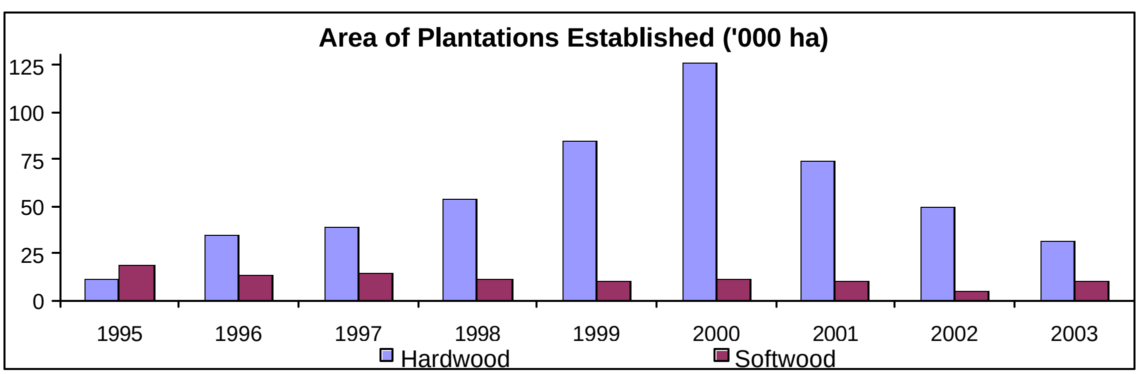
Australia has a total forest and woodland area of 162.7 million hectares, made up of around 102.5 million hectares of woodland, 50.2 million hectares of native forest, and about 1.6 million hectares of forest plantations. An estimated 9.9 million hectares of forest is classified as "unknown" in terms of specific vegetation cover. Approximately 23 percent of forest land is privately owned, with the remaining 77 percent in the public domain.



Source: ABARE data

Plantations currently account for around one percent of total Australian woodland and forest area. However, this area continues to grow with area on September 30, 2003 estimated at 1,666,000 hectares, up 12 percent from the 2000 estimate. This comprises 988,220 hectares of softwood and 675,960 hectares of hardwood. Since 1997, new plantations have totaled 318,610 hectares, with a record 137,490 hectares (revised) planted in 2000.

Since 1990, plantings have shifted from primarily softwood to mostly hardwood. Today, approximately 90 percent of the standing hardwood plantations has been planted since 1990.



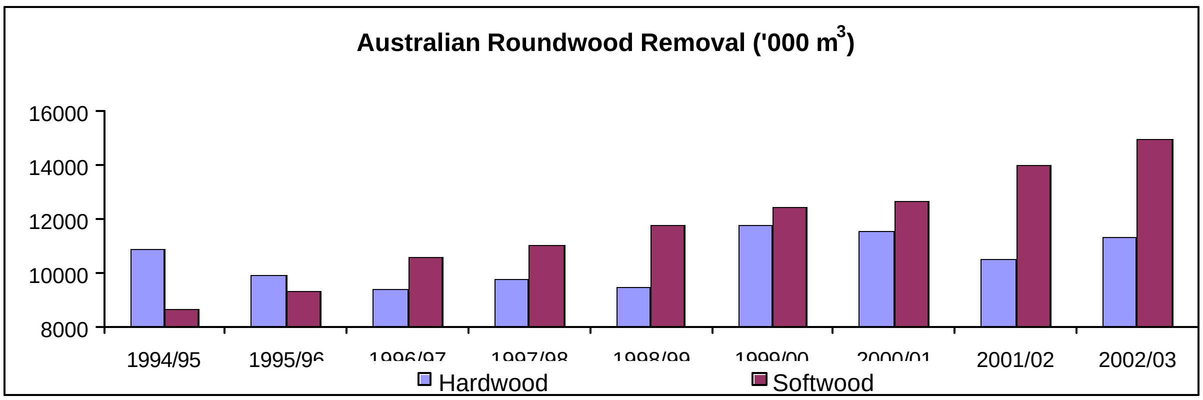
Source: ABARE data

Hardwoods are mainly native Eucalypts, with *Pinus radiata* (Radiata or Monterey Pine) being the most common softwood. Virtually all of the softwood plantations are planted to Radiata pine. Most of the hardwood plantations are *Eucalyptus globulos*.

Softwood Log Production

Softwood log production for 2004/05 is forecast at 16.5 million cubic meters. This represents an increase of five percent from the revised estimate for the previous year. This increase is representative of the long-term trend for growth in softwood log production, which stands at just over five percent for the past decade according to ABARE's (Australian Bureau of Agricultural and Resource Economics) historical data. Despite a recent easing in building activity, growth in the building sector is expected to remain at historically high levels and is likely to remain a driving factor in increasing softwood log production. Furthermore, the commencement of the removal of trees from areas planted under the Commonwealth Softwood Agreement Act (which commenced in the 1960s) will ensure a continuation of the strong supply that has underpinned production increases in recent years.

Softwood log production is estimated at 15.75 million cubic meters in 2003/05, up slightly from the figure in the previous report (see GAIN Report #AS3041). The revised estimate reflects an increase of around five percent from the previous year, in-line with ABARE estimates and the long-term growth average for production.



Source: ABARE data

Trade

Softwood log exports are forecast to increase five percent to 1.4 million cubic meters in 2004/05, in-line with increased production and longer-term industry growth. Estimated exports of softwood logs for 2003/04 has been revised downwards to 1.3 million cubic meters, in-line with official ABARE figures. Despite consistent growth in the export of softwood logs, exports continue to account for less than 10 percent of total production.

Softwood log imports remain at minimal levels, typical fluctuating at between 1,000 and 2,000 cubic meters per annum.

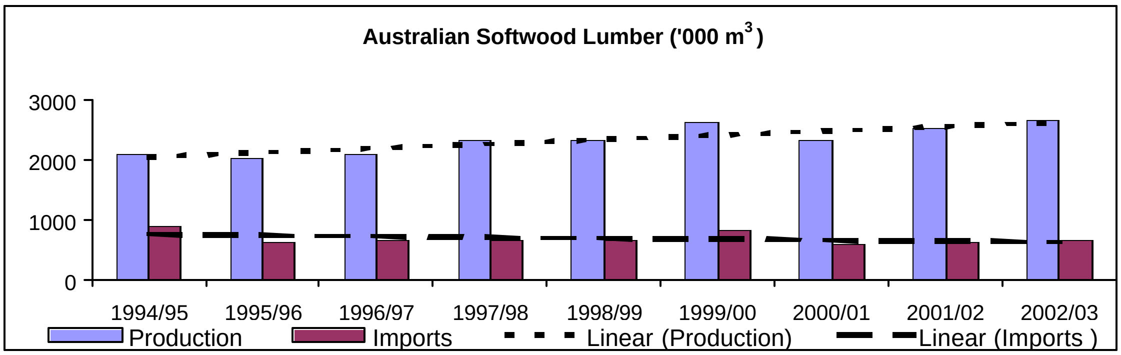
Consumption

Consumption of softwood logs in 2004/05 is forecast to increase five percent to 15.1 million cubic meters. This increase is in-line with the forecast increase in production. Historically high levels of building activity, in both commercial and housing sectors, are expected continue to drive increases is softwood log consumption.

Softwood Lumber Production

Softwood lumber production for 2004/05 is forecast at 3.16 million cubic meters, representing an increase of around five percent from the revised estimate for the previous year. This increase is in-line with the forecast increased in softwood log removals. Historically high levels of building activity are likely to continue the expansion of softwood lumber production in-line with longer-term trends.

Post estimates production of softwood lumber for 2003/04 at 3.01 million cubic meters. This represents a significant downward revision from the figure previously reported. This revision brings Post's estimates in-line with a downward revision in ABARE's historical figures (2001/02).



Source: ABARE data

Trade

Exports of softwood lumber in 2004/05 are forecast at 90,000 cubic meters, up sharply from the revised estimate of 71,000 cubic meters for the previous year. This growth is in-line with official growth estimates for the previous year and is likely driven by the steady increase in production. Despite the historically high nature of this forecast, softwood lumber exports continue to represent less than three percent of total production.

Exports of softwood lumber in 2003/04 have been revised upwards to 71,000 cubic meters, while the export number for 2002/03 has been revised downwards to 41,000 cubic meters. These numbers have been revised to reflect ABARE's current official data series.

Post forecasts imports of softwood lumber for 2004/05 at 764,000 cubic meters, five percent higher than a year earlier. This figure is in-line with projected increases in consumption for 2004/05 and is consistent with the growth experienced for the previous year. Imports of softwood lumber in 2003/04 is estimated at 729,000 cubic meters, revised upwards slightly from Post's previous estimated figure. This revision brings Post's estimate in-line with official ABARE estimates.

Consumption

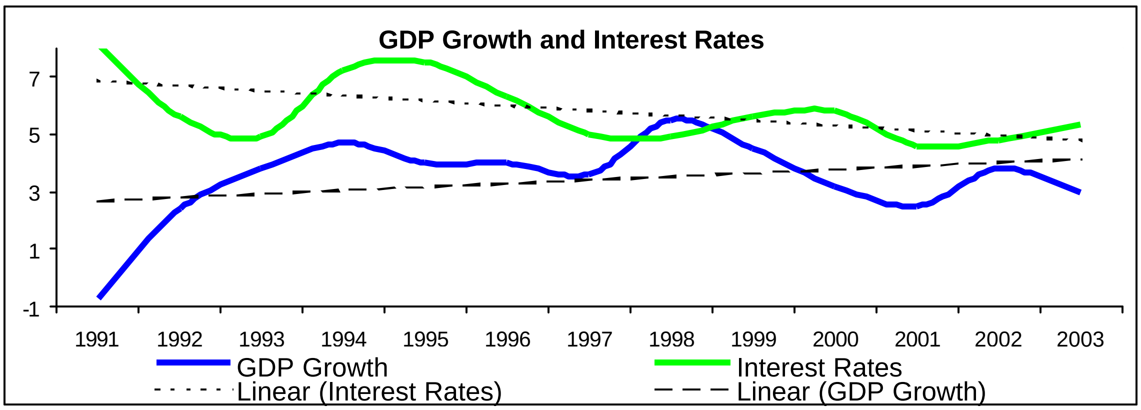
Consumption of softwood lumber is forecast to increase around five percent in 2004/05 to 3.8 million cubic meters, driven by historically high levels of building activity. Estimates for 2003/04 and 2002/03 have been lowered and are now in-line with ABARE's historical data.

Market Segment Analysis

Construction

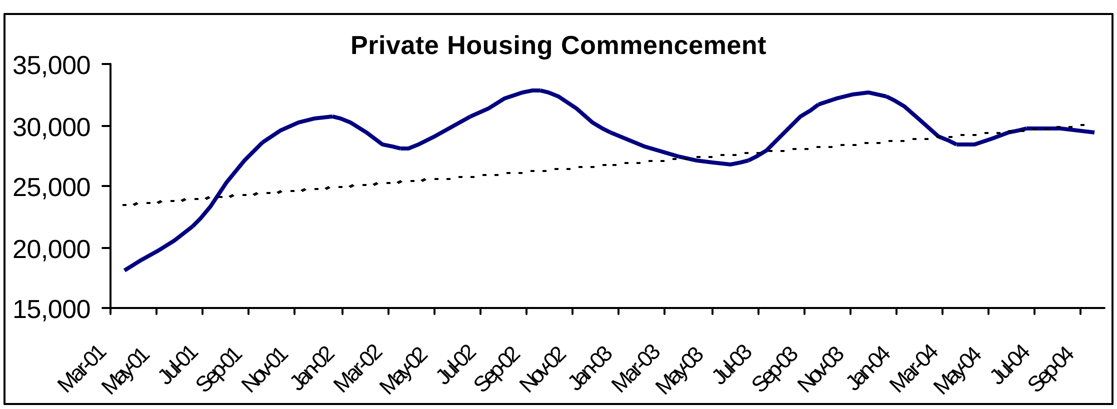
Economic activity has a large impact on the Australian building industry, which in turn has a large impact on building activity. Interest rates and investor confidence have been primary drivers of economic growth and building activity.

The Australian economy has grown at an average of four percent per annum since 1996/97, making Australia one of the fastest growing countries in the OECD. However, economic growth has eased somewhat of late. A recent government report estimated economic growth for 2004/05 at three percent. A growth rate of this level would represent a decline from the 3.5 percent recorded for 2003/04 and would put Australia below the projected average global growth rate of 4.0 percent.



Source: ABS data

According to official Australian Bureau of Statistics (ABS) data, building activity has been increasing steadily over the past decade. The private housing sector has been one of the fastest growing construction sectors, driven primarily by low interest rates and high levels of investor confidence and to a lesser extent government incentives for “first home builders”. A trend towards “investment properties” has also contributed to growth. More recently, growth in building activity has declined slightly and has created much attention in terms of building activity forecasts. Post anticipates that the building sector will continue to grow in 2004/05, albeit at a slower rate than 2003/04.



Source: ABS data

Policy

Tariffs

The general applied import tariff on sawn timber (tariff code 4407.10.10) is five percent, four percent for Canada and four percent for countries with developing country status. There is no import tariff on softwood logs.

Free Trade Agreements

Australia has entered into Free Trade Agreements with New Zealand and Singapore, and has recently completed FTA negotiations with Thailand and the United States. Other FTAs are being pursued with ASEAN, China and other countries in the region.

Australia-U.S. FTA: Australia completed FTA negotiations with the United States in early 2004, with the agreement implemented on January 1, 2005. The Australian Minister for Trade has characterized the FTA as "the most important bilateral deal that Australia has ever concluded". Under the FTA, the existing five percent tariff for all imports of sawn lumber from the United States has been eliminated. The tariff applied to Australian exports of sawn lumber to the United States remains unchanged at zero.

In 2003/04, Australia imported minimal amounts of sawn timber from the United States, accounting for less than two percent of total imports by volume.

Australia-Thailand FTA: Australia completed FTA negotiations with Thailand in October 2003, with the agreement implemented on January 1, 2005. Thailand received almost seven percent of Australia's exports of softwood lumber in calendar year 2003, up from only a 0.2% share in 2002, according to ABS data. The Thai tariff for imports of sawn wood is currently 5%. Under the FTA, this tariff will be removed for Australia in 2007. Australian imports of softwood lumber from Thailand are negligible.

Australia/New Zealand-ASEAN FTA: In November 2004, Australia, New Zealand and the Association of Southeast Asian Nations (ASEAN) announced that negotiations on a FTA would begin in early 2005. Further it was agreed that the FTA negotiations would be completed within two years and implemented fully within 10 years. This FTA would compliment bilateral FTA's with New Zealand, Singapore and Thailand, as well as a FTA scoping study currently being undertaken with Malaysia.

Australia imports significant amount of lumber from Malaysia. According to ABARE's historical data, imports of sawn wood from Malaysia currently account for just over six percent of total sawn wood imports.

Australia-China FTA: In October 2003, the Australian and Chinese governments signed a framework agreement for managing the bilateral trade and economic relationship between the two countries. As part of this framework, the two governments undertook to conduct a detailed joint study into the feasibility and benefits of an FTA between Australia and China. This study is to be completed by October 2005 and will provide the basis for Australia and China to negotiate an FTA. In subsequent meetings, the two countries have agreed to "fast track" the study, although a revised date of completion has not been announced. While imports of softwood from China are negligible, China received around three percent of Australia's exports of softwood lumber in calendar year 2003.

Quarantine

Biosecurity Australia (BA), the prescribed agency for Australian quarantine policy setting, is currently conducting a new Import Risk Assessment (IRA) for the importation of green sawn timber. BA has undertaken this IRA in response to the detection of new pest, diseases and plant pathogens. A draft IRA paper is not expected to be released until late 2005.

BA recently released the "Green Sawn Timber Imports Discussion Paper". This paper outlines the issues for interim quarantine measures prior to the eventual finalization the IRA. These measures include changes in the requirement for treatment prior to export, demonstrated area freedom treatments provided in Australia and affect imports from British Columbia, the Pacific North West and New Zealand. The coniferous species of timber affected are Douglas fir, Monterey pine, hemlock, coast redwood and western red cedar.

Bans on Old Growth logging

The logging of old growth forests remains a politically contentious issue. Certain areas of Australian old growth forest have been protected from logging under various conservation initiatives.

Federal elections were held in Australia in October of 2004. During the election campaign old growth logging and forestry policy became key issues for debate, particularly in the state of Tasmania. Both the government and the opposition released forestry policies in the lead up to the election which promoted increased protection of old growth forests.

The main point of differentiation was the government promise to not allow the demise of forestry communities due to logging bans. The Government was returned to power with an increased parliamentary majority, and in Tasmania where the issue was most prominent, two electoral districts that were held by the opposition, and where logging was a major industry, were lost to the government.

SECTION TWO: STATISTICAL TABLES

PSD Table Softwood Lumber							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2002		07/2003		07/2004	MM/YYYY
Production	3268	2669	3431	3012	0	3162	1000 CUBIC METERS
Imports	677	695	711	729	0	764	1000 CUBIC METERS
TOTAL SUPPLY	3945	3364	4142	3741	0	3926	1000 CUBIC METERS
Exports	51	41	54	71	0	90	1000 CUBIC METERS
Domestic Consumption	3894	3323	4088	3670	0	3836	1000 CUBIC METERS
TOTAL DISTRIBUTION	3945	3364	4142	3741	0	3926	1000 CUBIC METERS

Import Trade Matrix Softwood Lumber			
Time Period	Jan - Dec	Units:	M^3
Imports for:	2002		2003
U.S.	13700	U.S.	5622
Others		Others	
New Zealand	394158	New Zealand	391493
Canada	146733	Canada	141743
Czech Republic	38779	Czech Republic	66457
Finland	14349	Austria	14029
Sweden	5265	Finland	8953
South Africa	4865	South Africa	6735
Estonia	1082	Sweden	4453
Austria	982	Estonia	2422
Fiji	848	Papua New Guinea	2024
Malaysia	828	Chile	1961
Total for Others	**607889**		**640270**
Others not Listed	2741		6370
Grand Total	**624330**		**652262**

Source: World Trade Atlas. N.B. Post uses ABARE data for PS&D tables.

Export Trade Matrix Softwood Lumber			
Time Period	**Jan - Dec**	**Units:**	**M^3**
Exports for:	**2002**		**2003**
U.S.	49164	U.S.	42428
Others		**Others**	
Taiwan	9354	Taiwan	12517
Japan	8832	Japan	6451
Philippines	3874	Thailand	5086
Vietnam	3409	China	2013
China	2936	Singapore	2001
Hong Kong	1434	New Zealand	908
New Zealand	1415	Korea South	891
Fiji	1282	Hong Kong	749
Malaysia	954	Malaysia	636
Singapore	924	Fiji	338
Total for Others	**34414**		**31590**
Others not Listed	3473		1020
Grand Total	**87051**		**75038**

Source: World Trade Atlas. N.B. Post uses ABARE data for PS&D tables.

PSD Table Softwood Logs							
	2003	**Revised**	**2004**	**Estimate**	**2005**	**Forecast**	*UOM*
	USDA Official [Old]	**Post Estimate [New]**	**USDA Official [Old]**	**Post Estimate [New]**	**USDA Official [Old]**	**Post Estimate [New]**	
Market Year Begin		**07/2002**		**07/2003**		**07/2004**	*MM/YYYY*
Production	14935	15003	15681	15750	0	16500	*1000 CUBIC METERS*
Imports	1	2	1	2	0	2	*1000 CUBIC METERS*
TOTAL SUPPLY	14936	15005	15682	15752	0	16502	*1000 CUBIC METERS*
Exports	1383	1199	1453	1335	0	1400	*1000 CUBIC METERS*
Domestic Consumption	13553	13806	14229	14417	0	15102	*1000 CUBIC METERS*
TOTAL DISTRIBUTION	14936	15005	15682	15752	0	16502	*1000 CUBIC METERS*