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Thailand

Solid Wood Products

Annual

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Report Highlights:

Solid wood imports are expected to increase in 2008, particularly in furniture industries, despite lower prices of domestic rubber wood. Export-oriented wooden furniture manufacturers are seeking alternative hardwood materials, particularly from the U.S., in order to move toward the high-end of the market while also avoiding rubber wood price fluctuations. Thailand's real estate market is expected to accelerate in 2008, boosting import demand for tropical hardwood, particularly from neighboring countries.

Includes PSD Changes: No
Includes Trade Matrix: Yes
Annual Report
Bangkok [TH1]
[TH]

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Executive Summary

Domestic hardwood timber from Thailand's national forest is still limited by the logging ban and more stringent measures on forest conservation due to continued drop in forest area. Meanwhile, supplies of domestic rubber wood are still far below the potential cutting rate of annual mature rubber tree replacement. Despite the current drop in rubber wood this year, export-oriented wooden furniture manufacturers are seeking alternative hardwood materials, particularly from the U.S., in order to move toward the high-end of the market and avoid rubber wood price fluctuations. Anticipated structural changes in wooden furniture over the medium term will create significant opportunities for temperate hardwood, particularly from the U.S., as annual demand for rubber wood is currently around 1.2 million cubic meters.

Anticipated recovery in Thailand's real estate market in 2008 is also expected to increase imports, primarily from neighboring countries, for tropical hardwood for construction structure. Meanwhile, relatively cheaper flooring materials from China will likely limit the market for temperate hardwood, particularly for flooring materials. In addition, the high humidity environment of Southeast Asia remains a major concern for possible damage from improper installation, particularly in luxurious residence.

1. Production

1.1 Forest Situation and Outlook

Thailand's forest area continues to decline despite the logging ban since 1989. According to an Royal Forest Department report on forest offenses, annual depleted forest area is around 36,000 rai (5,760 hectare), or around 60 square kilometers over the past five years with annual confiscated log and lumber of 13,520 cubic meters, of which around 30 percent is teak log and lumber. The deforestation reflects illegal logging and illegal occupation of land for agriculture, particularly in the north. Farmers replaced forest area with rubber plantation and corn due to attractive farm prices. Presently, total forest area is expected to be around 33 percent of total land area with 104.8 million rai (16.8 million hectare, or 167,591 square kilometers). This is considered far below the optimum level of 40 percent of total land area despite ongoing conservation efforts for nearly two decades as part of the national forest policy in the National Economic and Social Development Plan (25 percent for conservation and 15 percent for economic forest). The Government revised their forest policy in the 10th National Economic and Social Development Plan (2007 – 2011) to focus on maintaining existing forest area with target of no less than 33 percent of total land area, of which no less than 18 percent is conservation. Also, 2.9 million rai of conservation forest will be rehabilitated. The Government has discouraged the state-run Forest Industry Organization (FIO) from selling confiscated logs in order to reinforce the logging ban.

1.2 Solid Wood Products Situation and Outlook

The Government logging ban and tree immaturity in private plantations has kept domestic demand high for hardwood timber (excluding rubber wood timber). Production of hardwood timber, particularly teak, from national forest areas is solely obtained from the FIO's logging and thinning activities in their reforested area of around one million rai (160,000 hectare) with estimated annual production of 100,000 – 200,000 cubic meter. Meanwhile, supplies of legally licensed timber and confiscated timber from national forest areas will likely drop to minimal levels as the Government recently planned to propose a ban on confiscated timber sales in order to protect the existing forest area. According to the Royal Forest Department (RFD), timber production (legally licensed timber and confiscated timber) increased to around 13,000 cubic meters in 2006, which is still far below production over the past three years.

Thailand is the world's largest producer of para rubber with total planted area of around 14 million rai (2.2 million hectares). Therefore, rubber wood (para wood) is the alternative material of timber from forest areas. However, annual rubber wood production is only around 3-4 million cubic meters, far below the official estimate of production potential of around 7 million cubic meters from annual mature rubber tree replacement of around 200,000 rai (32,000 hectare). Low cutting rates reflected continued increases in prices of natural rubber products to 70 baht/kg. (\$2/kg.), compared to an average of around 66 baht/kg. (\$1.7/kg.) in the previous year. The attractive natural rubber prices encouraged farmers to prolong the tapping of rubber trees. Meanwhile, domestic prices of rubber wood fluctuated, depending on export demand. Presently, wholesale prices of rubber wood at factory is at around 230-240 baht/cubic feet (\$7/cubic feet), compared to an average of around 300 baht/cubic feet (\$8/cubic feet) in the previous year, due to less aggressive exports to China and Vietnam this year. Despite rubber wood's relatively

affordable prices, export-oriented furniture manufacturers continued to shift to imported hardwoods, especially for oak, as prices of low-grade oak are reportedly still lower at around 200 baht/cubic feet (\$6/cubic feet) with higher added value to their furniture end-products.

2. Trade

Solid wood product imports are forecast to rebound in 2008, particularly for tropical hardwood, in anticipation of a recovery in Thailand's real estate market, as compared to a slowdown in 2006 – 2007 following slower economic growth of only around four percent due to political uncertainties. The Thai economy is expected to accelerate in 2008 in line with an increasing investor and consumer confidence after the general election in the end of 2007. In addition, the economy will benefit from 2007's delayed government budget implementation with large portions of public monies to be implemented in 2008. Strong spending is also expected to encourage more private investment over the next two years. Moreover, market interest rates, particularly mortgage rates, will likely remain at low levels, which is expected to generate new housing demand. Meanwhile, import demand for temperate hardwood should continue to grow, particularly in furniture industries.

Despite large exportable supplies of domestic rubber wood, Thailand relies heavily on hardwood imports, including tropical and temperate hardwood. Tropical hardwood imports account for around 70 percent of total hardwood imports. Most of hardwood imports for construction are low-grade wood from Malaysia, and Indonesia. Meanwhile, high-value tropical hardwoods imports for interior design and furniture production like teak, rose wood, and Ma-ka (*Azelia Xylocarpa Criab*) are mainly from Laos, and Burma. In 2006, tropical hardwood imports dropped significantly, particularly in low-grade lumber for construction from Malaysia due mainly to a slowdown in real estate in the second half of 2006 lasting through 2007. However, imports of temperate hardwood increased significantly in 2006, and should continue over the next five years as Thai furniture manufacturers continue to shift toward the high-end of the market. U.S. temperate hardwood should continue to gain more market share in furniture and picture frame market. U.S. hardwood accounts for around half of total temperate hardwood imports, as compared to around 30 percent in the previous year. The increase in the market share is mostly at the expense of domestic rubber wood in furniture industries. U.S. hardwood still has significant opportunity in wooden furniture despite the current drop in domestic rubber wood prices to an acceptable range. Leading export-oriented furniture manufacturers have permanently shifted to U.S. hardwood-based furniture products, as the uncertainties of domestic rubber wood supplies remain a major concern. Meanwhile, U.S. hardwood is competitive in both quality and price with sustainable supplies, standard, and variation of wood, compared to other temperate hardwood suppliers.

3. Market Segment Analysis

3.1 Construction Sector

The Real estate sector is expected to recover in 2008 in anticipation of the economic growth from and relative political stability after the general election in the end of 2007. In addition, mortgage rates will likely remain stable at around 7-8 percent, as further market interest rate hikes are unlikely due to low inflationary pressure. At the moment, developers are aggressively pushing

market promotions to stimulate housing demand in order to lower their housing stock and plan to launch new projects after sluggish demand turns around. In the first half of 2007, newly built housing registrations, including condominium, fell sharply. However, the market for newly built homes is reportedly expected to recover in the second half of this year with an estimated increase of around 2 percent in 2007. Many studies still anticipate strong demand for new houses. According to the official survey, annual housing demand is forecast to grow by no less than 3 percent over the medium term. Meanwhile, housing supplies reportedly increased by around 5 percent in terms of number of projects permitted nationwide in the first quarter of this year. Condominium construction continued to surge from the last quarter of 2007, particularly in Bangkok and other big cities with approximately half of the projects are under construction.

Key Residential Property Indicators

	2004	2005	2006	Q1	
				2006	2007
Construction Areas Permitted in Municipal Zone (,000 sq. meters)	22,698	19,633	18,290	5,035	3,677
Condominium Registration Nationwide (units)	10,387	13,239	23,212	1,338	4,114
Bangkok Metropolis and Vicinity	8,063	9,939	12,776	748	3,198
Other Provinces	2,324	3,300	10,436	590	916
New Housing in Bangkok Metropolis and Vicinity (unit)	62,796	67,829	72,723	15,584	15,631
Housing Project	40,752	35,935	29,947	7,861	5,527
Apartment and Condominium	2,185	6,653	15,843	748	2,872
Self-Built Housing	19,859	25,241	26,933	6,975	7,232
Property Credit Outstanding (million baht)	822,526	925,604	998,947	930,211	1,011,285
Real Estate Development Credit	278,071	301,226	313,769	317,652	312,855
Personal Housing Credit	544,455	624,378	685,178	612,559	698,429

Source: Bank of Thailand

Despite a dominant share of tropical hardwood in construction structure, temperate hardwood, particularly U.S. hardwood, still has market opportunity in flooring materials. A sharp increase in condominiums will likely be an emerging market for U.S. hardwood, particularly in high-end homes, due to its luxurious appearance. However, flooring manufacturers in Thailand are reportedly facing strong competition from relatively cheaper Chinese flooring materials. Also, most architects and interior designers usually promote tropical hardwood flooring, particularly teak, to avoid damage from incorrect installations under high humidity environments. Meanwhile, medium and low-end condominium are less likely to use U.S. solid wood due to competition from cheaper laminated floor materials.

3.2 Furniture & Interiors Sector

The furniture industry is one of major export-oriented industries in Thailand with export earnings of around 50 billion baht (around \$1.3 billion) in 2006. According to an official survey in 2006, there are 12,326 furniture manufacturers in Thailand, of which 20 are large-scale furniture manufacturers. Wooden furniture accounted for around 70 percent of total furniture production. The structural change of the wooden furniture industry in the past two decades since the logging ban led to an increase in rubber wood furniture, accounting for around 60-70 percent of total wooden furniture production, followed by non-para rubber hardwood furniture (15-20 percent), and panel furniture (15-20 percent). Production is also diversified from finished furniture to knocked-down furniture, particularly in export-oriented large-scale manufacturers with modern technology. Around 70 percent of total wooden furniture production is for export, particularly to

the U.S., Japan, and European countries. Meanwhile, domestic demand for furniture and interior decorations will likely continue to grow in line with new housing.

The Thai wooden furniture industry is a good potential market for imported U.S. hardwood, as manufacturers are moving toward the high-end of the market. In addition, some furniture manufacturers, including picture frame manufacturers, have permanently replaced rubber wood with imported hardwood, particularly from the U.S. Despite the current drop in domestic prices of rubber wood to around 230-240 baht/cubic feet (\$7/cubic feet), compared to an average of around 300 baht/cubic feet (\$8/cubic feet) in the previous year, furniture manufacturers reportedly continue to source alternative materials, hardwood in particular, in order to add value to their products with a relatively higher profit margin. Presently, Thai rubber wood furniture is less competitive with shrinking margin due to strong competition in export markets. In addition, Thai furniture industry presently emphasizes the need for furniture design development in order to upgrade to original design manufacturers (ODM). A successful move toward the high-end of the market is expected to generate strong demand for imported hardwood, as current annual demand of rubber wood for wooden furniture is estimated at around 1.2 million cubic meters.

3.3 Material Handling Industry

The utilization of wooden pallets for packaging in exports presently accounts for around 60 percent of total packaging material utilization, a gradual decline over the past decade. Export-oriented heavy product manufacturers, particularly in auto-parts industries, reportedly replaced wooden pallets with steel from their production waste. Also, the use of plastic, paper, and foam packaging has increased in popularity, particularly in light-industry product. In addition, import regulations of trading partners on wood packaging material (WPM), particularly in those countries with stringent measures beyond the International Standards for Phytosanitary Measure-15 (ISPM-15) has encouraged exporters to shift to alternative packaging materials.

Thailand relies on imports of wooden pallets due to insufficient domestic supplies. Most wooden pallets are from Australia and New Zealand due to transportation cost advantage and regular outreach marketing promotion of suppliers. However, import prices of wooden pallets from these suppliers increased significantly by 50-60 percent from the previous year due to tight exportable supplies and strong demand from other countries, particularly from China and Vietnam. The surge in import prices from regular suppliers caused Thai wood packaging industry to seek alternative sources of wooden pallets, particularly from the U.S. due to relatively more stable prices and supplies.

Statistic Section

Table 1: Thailand's Imports of Tropical Hardwood Log

Import Trade Matrix

Country Thailand

Commodity Tropical Hardwood Logs

Time Period Units:

Imports for: **2006**

U.S. U.S.

Others Others

Malaysia	88617	Malaysia	72689
Burma	169106	Burma	136130
Laos	33316	Laos	22000
Indonesia	0	Indonesia	0
Papua N.	61660	Papua N.	26619
Gabon	8223	Gabon	13839
Solomon Island	12707	Solomon Island	7700
South Africa	0	South Africa	0

Total for Others 373629 278977

Others not Listed

Grand Total 383417 281446

Table 2: Thailand's Imports of Temperate Hardwood Lumber

Import Trade Matrix

Country Thailand

Commodity Temperate Hardwood Lumber

Time Period

Jan. - Dec.

 Units:

CuM

Imports for:

2005

2006

U.S.

64449

 U.S.

181470

Others Others

New Zealand	62845	New Zealand	69852
China	18893	China	13036
Canada	9126	Canada	13754
Sweden	23775	Sweden	11163
Germany	5111	Germany	3803
Australia	29208	Australia	31781
Finland	2598	Finland	3461
Austria	2972	Austria	463

Total for Others 154528 147313

Others not Listed

1201

11367

Grand Total 220178 340150

Table 3: Thailand's Imports of Tropical Hardwood Lumber

Import Trade Matrix

Country Thailand

Commodity Tropical Hardwood Lumber

Time Period Units:
 Imports for: **2006**
 U.S. U.S.
 Others Others

Malaysia	1266337	Malaysia	79056
Laos	338253	Laos	392802
Burma	24541	Burma	64189
Brazil	35604	Brazil	14179
Indonesia	9481	Indonesia	8102
Cambodia	7007	Cambodia	2064
South Africa	46	South Africa	35
Chile	14733	Chile	15337

Total for Others 1696002 575764
 Others not Listed
 Grand Total 1717962 593900

Table 4: Thailand' Imports of Hardwood Veneer

Import Trade Matrix

Country Thailand

Commodity Hardwood Veneer

Time Period	Jan. - Dec.	Units:	CuM
Imports for:	2005		2006
U.S.	778	U.S.	1189
Others		Others	
Indonesia	1001	Indonesia	999
Malaysia	12717	Malaysia	10057
Finland	2751	Finland	3437
China	4718	China	5067
Germany	621	Germany	108
Brazil	1346	Brazil	956
Taiwan	729	Taiwan	701
Burma	287	Burma	1940
Japan	153	Japan	539
Laos	3606	Laos	1956
Total for Others	27929		25760
Others not Listed	1370		1937
Grand Total	30077		28886

Table 5: Thailand's Imports of Hardwood Plywood

Import Trade Matrix

Country Thailand

Commodity Hardwood Plywood

Time Period	Jan. - dec.	Units:	CuM
Imports for:	2005		2006
U.S.	51	U.S.	2
Others		Others	
Indonesia	19819	Indonesia	12283
Malaysia	77577	Malaysia	24410
Laos	0	Laos	0
Taiwan	4115	Taiwan	263
Singapore	5	Singapore	1
China	14471	China	113003
Burma	160	Burma	1718
Total for Others	116147		151678
Others not Listed	1288		3281
Grand Total	117486		154961

Table 6: Thailand's Exports of Tropical Hardwood Logs

Export Trade Matrix

Country Thailand

Commodity Tropical Hardwood Logs

Time Period	Jan. - Dec.	Units:	CuM
Exports for:	2005		2006
U.S.	0	U.S.	0
Others		Others	
China	156	China	1009
Vietnam	2635	Vietnam	1426
India	5200	India	0
Total for Others	7991		2435
Others not Listed	0		63
Grand Total	7991		2498

Table 7: Thailand's Exports of Tropical Hardwood Lumber

Export Trade Matrix

Country Thailand

Commodity Tropical Hardwood Lumber

Time Period	Jan. - Dec.	Units:	CuM
Exports for:	2005		2006
U.S.	10604	U.S.	6113
Others		Others	
China	1014605	China	804514
Hong Kong	32533	Hong Kong	12610
Vietnam	42143	Vietnam	50335
Malaysia	208473	Malaysia	380414
Taiwan	6225	Taiwan	7026
Australia	1049	Australia	193
Japan	20424	Japan	23251
Netherlands	3650	Netherlands	5796
Belgium	5590	Belgium	5569
Germany	1977	Germany	3071
Total for Others	1336669		1292779
Others not Listed	14662		14739
Grand Total	1361935		1313631

Table 8: Thailand's Exports of Hardwood Veneer

Export Trade Matrix

Country Thailand

Commodity Hardwood Veneer

Time Period

Jan. - Dec.

 Units:

CuM

Exports for:

2005

2006

U.S.

0

 U.S.

25

Others Others

Demark	787	Demark	523
U.K.	56	U.K.	86
France	154	France	48
Germany	78	Germany	42
Italy	122	Italy	186
Finland	66	Finland	36
Netherlands	104	Netherlands	87
Sweden	58	Sweden	81
Singapore	50	Singapore	7
Malaysia	28	Malaysia	17

Total for Others 1503 1113

Others not Listed

468

314

Grand Total 1971 1452

Table 9: Thailand's Exports of Hardwood Plywood

Export Trade Matrix

Country Thailand

Commodity Hardwood Plywood

Time Period	Jan. - Dec.	Units:	CuM
Exports for:	2005		2006
U.S.	56	U.S.	1270
Others		Others	
India	914	India	112
Malaysia	19696	Malaysia	18666
U.K.	0	U.K.	1
Hong Kong	58	Hong Kong	248
Laos	863	Laos	1146
Japan	934	Japan	62
Singapore	31	Singapore	377
Taiwan	1	Taiwan	217
Burma	258	Burma	1242
China	2408	China	
Total for Others	25163		22071
Others not Listed	7064		7011
Grand Total	32283		30352

End of Report.