

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

Voluntary Public

Date: 9/29/2015

GAIN Report Number:

Egypt

Post: Cairo

Egypt's Wood Sector Report

Report Categories:

Wood Products

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Report Highlights:

Egyptian wood sector industry is poised to grow domestically, as the Government of Egypt engages in large-scale infrastructure projects, including the construction of one million affordable housing units in 13 locations with an estimated value of \$40 billion, and the Mena Holding Group's Ayaat City project at a cost of \$24 billion. These projects present ample opportunities for American wood species; however, market development activities need to take place to capitalize on these opportunities.

General Information:

I. MARKET OVERVIEW AND OUTLOOK

History

Egypt's wood sector industry's key component is furniture production centered in the port of Damietta. The city traces its origins back to its shipbuilding activities in the 7th century A.D. During the 18th and 19th centuries, French and British colonizers, understanding the high level of craftsmanship and the port's strategic location, began teaching locals the art of furniture making, explaining why to this day the style of furniture produced resembles French and English colonial style.

After gaining independence in 1952, the industry remained cloistered serving mostly the country's domestic market, continuing that way until the 1990s when Egypt began instituting reforms to liberalize its economy and joined the ranks of the World Trade Organization. Recognizing the industry's potential, the government instituted a number of measures to modernize the industry and improve its image, resulting in a surge in exports mainly to Middle East and North African (MENA) countries.

The industry benefits from low labor costs and a strategic geographical location; however, it remains highly fragmented (table 1) with low labor productivity and quality concerns as regards to small and some medium-sized establishments but highly productive and efficiently run in larger-sized establishments. It's not uncommon that the larger establishments have multiple types of certifications, especially those that are export oriented.

Table 1: Number of Establishments and Employees in Egypt's Wood Sector Industry

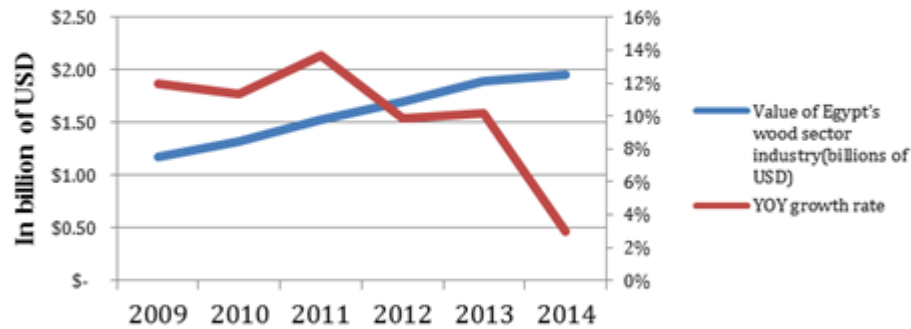
	Establishments	Employees	Average employees/establishment
Total	57,027	306,000	5.4
Small size	55,372	277,000	5.0
Medium size	1,343	12,000	8.9
Large size	312	17,000	54.5

Source: Egyptian Furniture Sector Development Strategy

Market Status

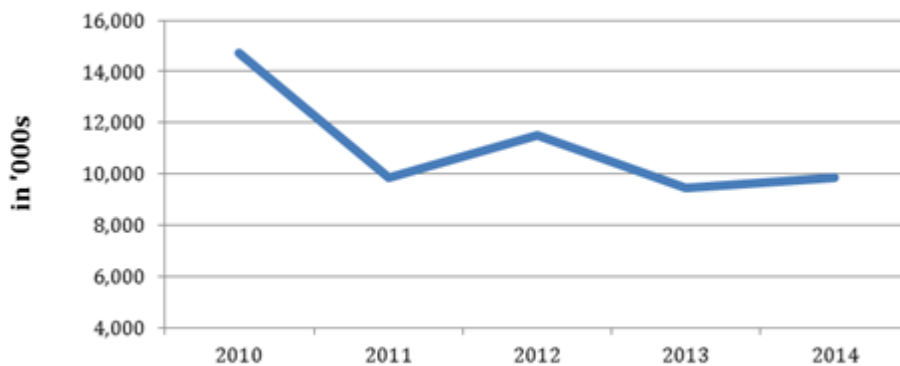
After enjoying a period of double-digit growth, Egypt's wood sector industry is suffering from the hangover of the 2011 and 2013 revolutions. In 2014, Egypt's wood sector industry grew 3 percent from 2013 to \$1.95 billion dollars (figure 1). The industry's slowdown is a result of weakened domestic demand, mainly due to a reduction in international tourist arrivals (figure 2), putting large-scale hotel and construction projects on hold. Additionally, the industry is being affected by a slowdown in overall consumer spending (figure 3), as Egyptian consumers face price shocks from government reforms in fuel and electricity subsidies, and a weakening Egyptian pound.

Figure 1: Value of Egypt's Wood Sector Industry and Growth Rate 2009-2014



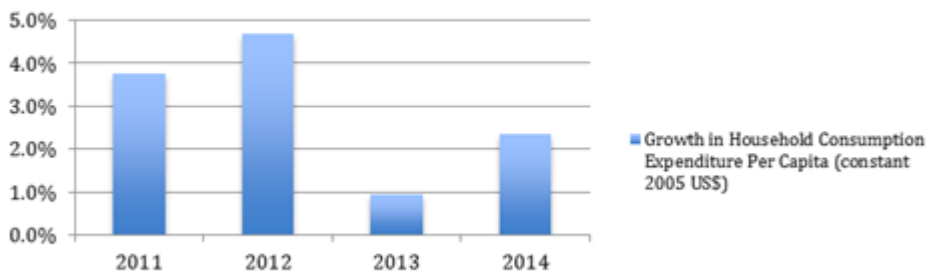
Source: FAS estimate derived from Egypt's national accounts and input-output data

Figure 2: Number of International Tourist Arrivals



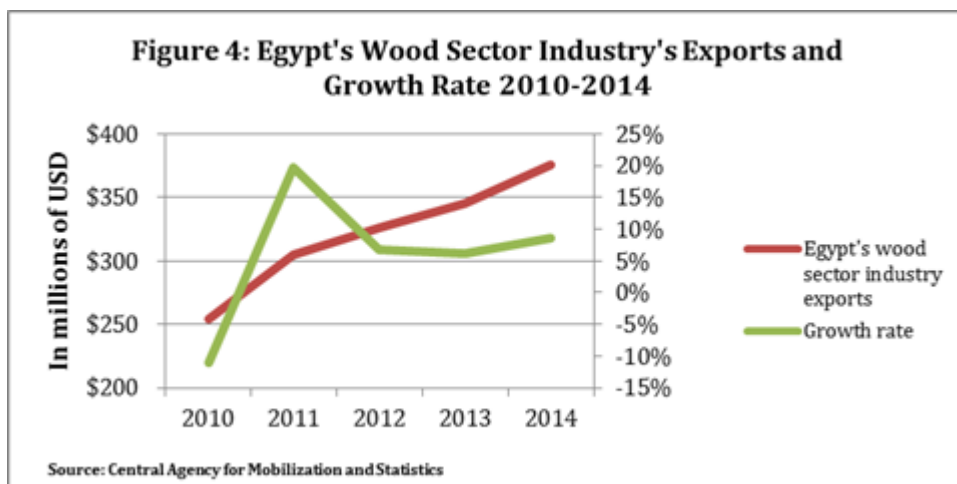
Source: Central Agency for Public Mobilization and Statistics

Figure 3: Growth in Household Consumption Expenditure Per Capita (constant 2005 US\$)



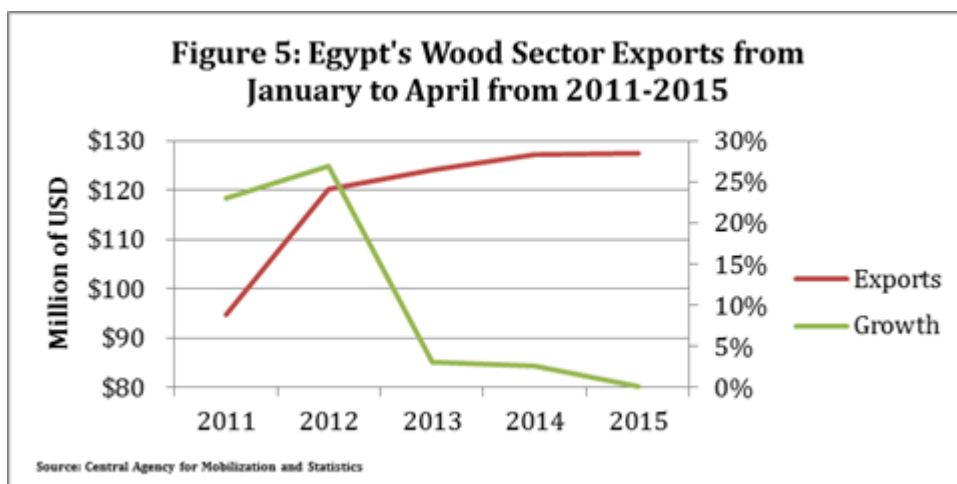
Source: Data derived from World Bank data

However, growth in foreign demand for Egypt's wood sector industry products continues to expand unabated. In 2014 exports grew by nine percent from 2013 to \$376 million (figure 4).



Outlook

The industry's outlook is uncertain. Foreign demand looks rocky as Egypt's key furniture markets in the Gulf Region have had their growth forecasts cut by one percent by the International Monetary Fund. The slowdown is noticeable, as export growth for the first four months of 2015 has slowed down the most in the last five years (figure 5).



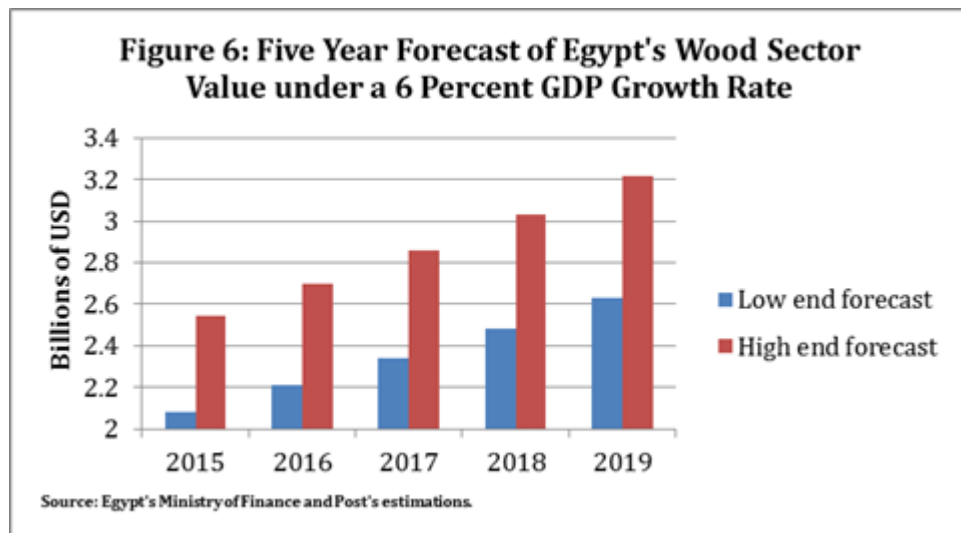
In the domestic market, manufacturers are banking on the government's large infrastructure projects to boost demand, increase liquidity and consumer spending, and offset the slowdown in hotel and resort construction. The first of these projects is the Suez Canal Development Project (SCDP), which completed its first phase in August by building a parallel waterway to the existing Suez Canal at a cost of \$8.5 billion. The waterway is expected to increase revenues from \$5 billion to over \$13 billion by 2023. The SCDP also includes building seven new tunnels connecting the Sinai Peninsula to the Egyptian mainland at a cost of \$4.2 billion, expansion of the canal's six ports, and a logistics hub on 76,000 square km, aimed at increasing production and trade of electronics, textiles, phosphates, and agricultural commodities.

Other significant projects include building of a new road network at a cost of \$3.5 billion, 1.5 million

acres of land reclamation, and reviving several old projects, including the Toshka project, the Qattara Depression area for generating energy, and the Golden Triangle for mining in the Eastern Desert.

However, the most ambitious projects are in residential and commercial real estate. These include the plan to build a new capital that will run at least into the tens of billions of USD, with over 10,000 km of boulevards, avenues, and streets. The construction of one million affordable housing units in 13 locations, a deal that is in the works between UAE based Arabtec Holdings and the Ministry of Defense. The project would create over one million jobs, with an estimated value of \$40 billion. Also worth noting is the Mena Holding Group's Ayaat City project at a cost of \$24 billion to be built over 20 years in 6 of October City. The city will include universities, an airport, malls, hospitals, and light industries.

According to the Ministry of Finance, if implemented, these projects would be able to provide a sustainable GDP growth rate of at least six percent up to 2019. Under this scenario, FAS Cairo estimates the value of Egypt's wood sector would be in the range of \$2.62 billion to \$3.21 billion dollars by 2019 (figure 6).



II. Production

Egypt's highly fragmented wood industry and limited availability of data makes it very challenging to make accurate estimates. There is much inconsistency and variability in the data, as such this office strongly advises that it be used discreetly. The latest available data is for 2013. To derive the data, Post made use of Egypt's National Accounts, Output-Input Table, and CAPMAS industrial statistics.

In 2015, Post estimates that Egypt's wood sector's growth will be of five percent in line with the country's GDP growth rate for a value of \$2.05 billion, from 2014's value of \$1.95 billion. Most of the growth will be due to an increase in domestic consumption, as the country spends more on large-scale infrastructure and housing projects, and a projected increase of 12 percent in spending on social programs to ease consumers' food expenditures.

In 2015, FAS Cairo expects that largest market share of any wood product will be furniture for home use at \$603 million, followed by carpentry products used in the construction industry at \$324.16 million, and wooden furniture for bedrooms at \$237.99 million (table 2).

The surge in residential construction and the jump-starting of some of the big infrastructure projects will result in a jump in demand for carpentry products used in the construction industry, growing by 13 percent from 2014 to \$123.1 million. It will also have a spillover effect on variety wooden doors, which will grow by 11 percent, as well as home furniture for home use and wooden furniture for bedrooms growing at 10 percent each. Flooring is expected to increase at six percent from 2014 to \$51.9 million, a sector in which U.S. hardwood enjoys growing demand.

Table 2: Wood Sector Production by End Use

Product	2014 (millions of USD)	2015 (millions of USD)	YOY Growth
Variety of wood furniture for home use	\$ 545.07	\$ 603.19	10%
Carpentry products used in construction industry	\$ 286.73	\$ 324.16	12%
Wooden furniture for bedrooms	\$ 214.49	\$ 237.99	10%
Other wooden products	\$ 275.27	\$ 225.68	-22%
Cornices, wood décor	\$ 106.96	\$ 112.84	5%
Wooden doors	\$ 96.47	\$ 108.74	11%
Wooden furniture for dining room use	\$ 99.80	\$ 102.58	3%
Wooden furniture for office and school use	\$ 85.71	\$ 92.32	7%
Wooden boxes	\$ 65.95	\$ 63.60	-4%
Flooring	\$ 48.31	\$ 51.29	6%
Wooden furniture for salons	\$ 47.49	\$ 47.19	-1%
Wooden furniture for sofas	\$ 43.85	\$ 45.14	3%
Wooden furniture for kitchen use	\$ 35.11	\$ 36.93	5%

Source: FAS derived data from CAPMAS industrial statistics, input-output tables, and Ministry of Planning.

*CAPMAS data does not disaggregate by specific end-use.

III. Trade

Egypt's Imports of Wood and Articles of Wood

In 2014, Egypt imported a record \$1.8 billion dollars of wood and wood articles, an increase of 28 percent from 2013 (figure 7). The main articles imported were sawn coniferous wood more than 6 mm thick at a value of \$1.21 billion, followed by plywood at a value of \$243 million, and sawn hardwood more than 6 mm thick at \$171 million (table 3).

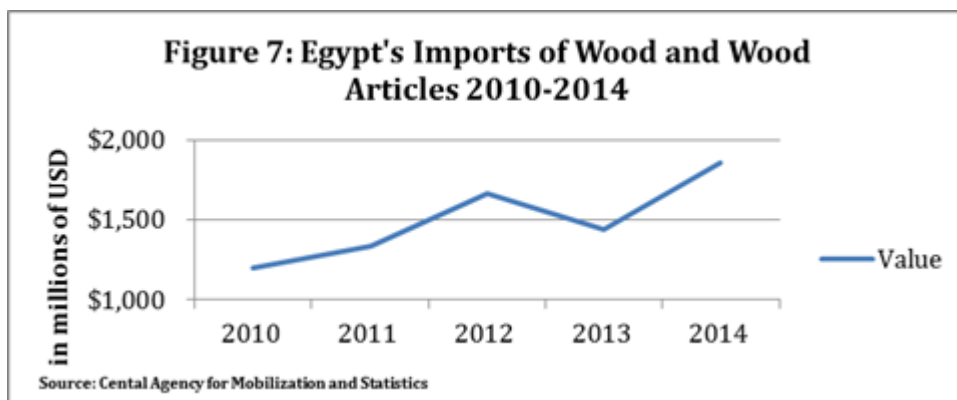
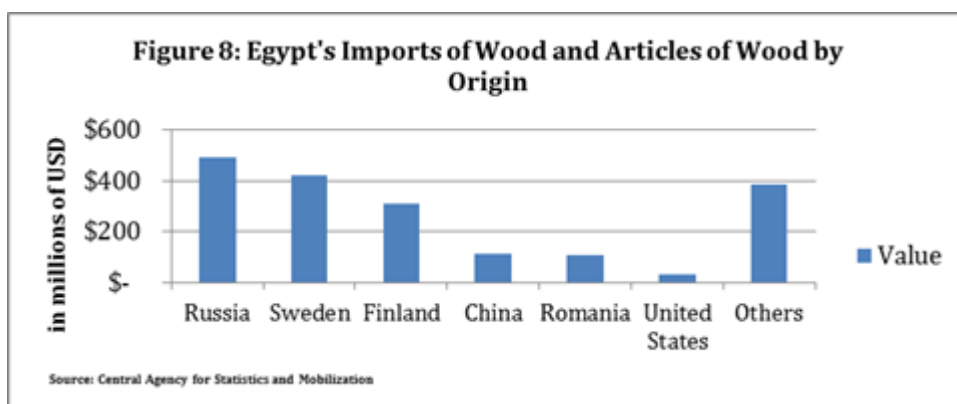


Table 3: Egypt's Imports of Wood and Articles of Wood in 2013-14

Commodity	2013	2014	Percent Change
Sawn coniferous wood over 6 mm thick	\$ 836,632,080	\$ 1,211,257,833	45%
Plywood less than 6 mm thick	\$ 216,853,856	\$ 242,383,381	12%
Sawn hardwood over 6 mm thick	\$ 172,937,104	\$ 171,625,218	-1%
Medium density fiberboard greater than 9 mm	\$ 50,129,771	\$ 68,432,673	37%
Coniferous Wood In The Rough	\$ 50,742,253	\$ 52,639,055	4%
Veneer sheets not over 6 mm thick	\$ 47,047,519	\$ 38,871,596	-17%
Particle board	\$ 5,704,498	\$ 14,999,074	163%
Other	\$ 59,965,479	\$ 55,792,887	-7%

Source: CAPMAS

In 2014, the top import origins were Russia with a value of \$492 million, followed by Sweden at \$422 million and Finland at \$307 million. The United States was eighth at \$21 million (figure 8).



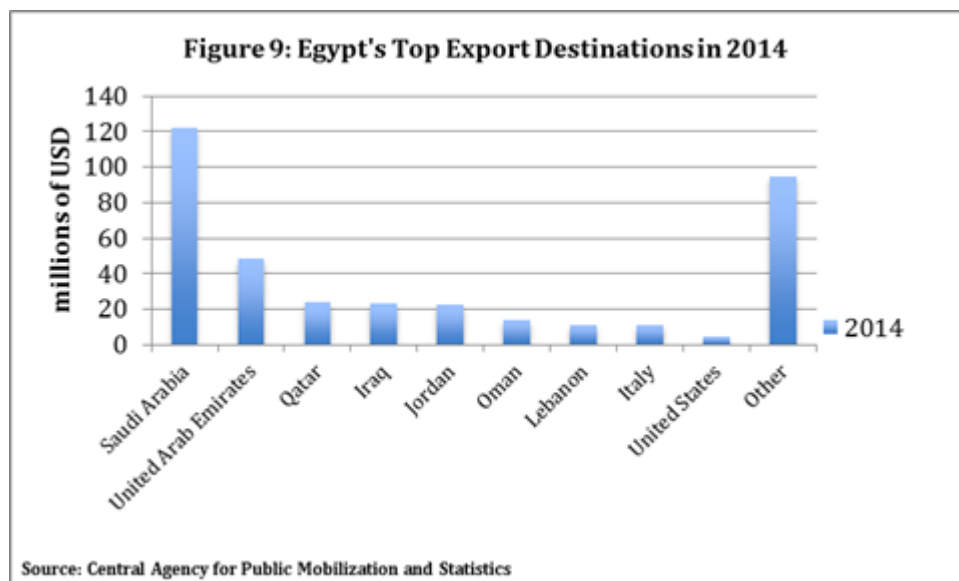
Egyptian Wood Sector Industry's Exports

No data breakdown on furniture exports was available, but the total aggregated exports in 2014 were \$302 million practically unchanged from 2013 at \$301 million, representing 81 percent of the wood sector's exports. Wood, continuously shaped, at \$23.4 million or six percent of all exports, and fiberboard at \$11.9 million representing 4 percent of the sector's exports (table 4) were next largest product categories.

Table 4: Egypt's Wood Sector Industry Exports by Product and Percent Change 2013 and 2014

Product	2013	2014	Percent Change
Wooden Furniture	\$301,468,061	\$302,573,129	0%
Wood, Continuously Shaped (including strips and friezes for parquet flooring, not assembled, and beadings and moldings)	\$2,142,383	\$23,397,500	992%
Wood Charcoal	\$11,501,172	\$11,949,950	4%
Fiberboard Of Wood	\$2,822,426	\$9,611,723	241%
Other	\$27,628,372	\$6,833,447	-75%

The Persian Gulf countries remain Egypt's top export destination. In 2014, Saudi Arabia was by far the largest destination at \$121.7 million or 32 percent of all exports, followed by the UAE at \$48.7 million or 13 percent of all exports, and Qatar at \$24 million or six percent of all exports. Exports to the US were minimal at \$4.7 million, constituting just one percent of all exports (figure 9).



IV. U.S. Wood and Wood Articles in Egypt

Overview

According to U.S. Census Data ^[1], in 2014, the U.S. exported \$32 million of wood and articles of wood to Egypt, an increase of 18 percent from 2013's value of \$ 27.4 million. The top exports were red hardwood veneer at \$8.6 million with 27 percent of total exports, southern yellow pine at \$7.4 million

or 23 percent of total exports, and red oak lumber at \$7 million or 22 percent of all exports (table 4).

Product	Unit	Value	Quantity	Percent of Total Exports
Red Oak Veneer	M2	\$8,552	10,072,460.00	27%
Southern Yellow Pine	M3	\$7,471	22,416.00	23%
Red Oak Lumber	M3	\$7,024	7,846.00	22%
Other	-	\$1,979	-	6%
Other Oak Hardwood Veneer	M2	\$1,197	977,829.00	4%
Ash Lumber	M3	\$978	1,141.00	3%
Red Oak Hardwood Logs	M3	\$900	1,355.00	3%
Southern Yellow Pine Logs	M3	\$856	2,588.00	3%
White Oak Lumber	M3	\$823	1,064.00	3%
Other Pine Lumber	M3	\$636	2,164.00	2%
Meranti Veneer	M2	\$597	476,172.00	2%
Walnut Lumber	M3	\$457	252	1%
Walnut Veneer	M2	\$310	339,834.00	1%
Poplar	M3	\$259	963	1%
Softwood Veneer	M2	\$135	162,374.00	0%

Red Oak Veneer and Lumber

Red oak is the most popular U.S. veneer and hardwood being used in Egypt, but it is not as popular as beech. It is used for higher-end home furnishings and outside wooden doors, as well as flooring. Most five-star hotels and resorts require its use for their projects. The veneer and the hardwood are readily available in the construction hub of Damietta; however, it is pricey and the veneer is increasingly interchanged with “mechanized” veneer.

Southern Yellow Pine

Exports of U.S. southern yellow pine have registered the highest growth rate in Egypt’s wood sector with an annualized growth rate of 142 percent in the last five years. It is very suitable in Egypt’s dry climate, and its high density allows for the production of acceptable joinery and furniture products. However, Egypt’s industry complains of having a hard time getting quotes or interest from U.S. suppliers.

Ash Lumber and Other Hardwoods

There is limited domestic demand, mostly for hotels and resorts’ joinery and furniture needs, and also used in flooring. Most of the use is for the production of joinery and furniture products exported to Saudi Arabia and other Gulf countries, as these markets are more acquainted with these hardwood species.

Opportunities and Challenges

The Egyptian wood sector industry is poised to grow domestically, presenting ample opportunities for American wood species. Nonetheless, it is critical that market development activities by FAS’s cooperator groups be implemented. After surveying key players in the industry, the following activities

and challenges should be addressed in order to increase U.S. market share.

- Seminars, workshops, and brochures on U.S. lumber grading systems and suppliers: Wood importers and end users sorely need technical assistance on U.S. lumber grading, and specs, it's perceived that U.S. grading and specs provide too much latitude for unwanted lumber. A list of suppliers with interest in the Egyptian market would be very advantageous.
- Seminars and workshops on wood species applications, product design and trends in the U.S. wood and furniture industry: Egypt is looking to expand its trade with the US and Europe, and it's key to grasp market trends, as well as to increase domestic use.
- Packaging: End users face challenges providing a quality product using space-saving and affordable packaging. Furniture manufacturers are looking for alternatives and latest trends in packaging.
- Trade servicing and marketing: Egypt's furniture industry is very interested in the U.S. market, but is having a hard time finding clients and suppliers. Activities such as trade shows, trade missions, and B2B activities are necessary.
- Kiln-drying: Concerns about the proper kiln drying of US red oak do not allow the use of water-based finishes.

[1] Post changes to U.S. Census data from Egypt's Central Agency for Program and Mobilization data, as breakdown by type of product was not available under the latter.