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Report Name: Imports Buoyed by Softwood Log Demand

Country: China - People's Republic of

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Report Highlights:

Soaring raw material prices and reduced inventory characterize China's wood products industry in 2021. Domestic timber production is forecast to increase 10 percent in 2021 to 95 million cubic meters (m3) due to a larger logging quota and robust demand. Wood-based paneling production is forecast to increase 11 percent this year to 310 million m3, driven by growing domestic and international demand. China's overall wood product imports are expected to increase slightly in 2021 due to low inventory and strong demand, in particular for softwood logs. Likewise, overall wood product exports are expected to increase due to rising international demand. China's revised Forest Law includes an illegal timber ban that may help level the playing field for timber exporters, although the impact of the law will depend on the implementation regulations currently under development.

General Information:

At 220 million hectares (ha)[1], China's total forested area—comprised of natural and planted forest—ranks fifth in the world after Russia, Brazil, Canada, and the United States. China's planted forest area is the largest in the world. However, a ban on commercial logging of natural forests limits the supply of high-quality timber and pushes China to import large volumes of wood, since planted timber is not easily substituted for natural timber.

China's domestic logging is managed through national and provincial five-year logging quotas. While the 14th national five-year quota (2021-2025) had not been published as of May 27, 2021, provincial quotas indicate an overall increase compared with the previous five-year quota. For example, Guangxi province, which accounted for 17 percent of the 13th national five-year quota, saw its logging quota increase to 57 million cubic meters (m^3) in the current five-year quota compared to 44.71 million m^3 in the previous one. Fujian province's current quota is 22.16 million m^3, up from 21.73 million m^3 previously.

Solid Wood Sector

China's 2021 timber production (including logs and firewood) is forecast at 95 million m^3, an increase of 10 percent compared to the 87 million m^3 in 2020, primarily due to an increased logging quota and strong demand from the wood processing sector.

Guangxi is the largest timber producing province in China, accounting for about one third of China's total timber production, due to its extensive eucalyptus planted area. According to a local government report, 70 percent of Guangxi timber production is eucalyptus. Guangxi mainly plants fast-growing eucalyptus, which can be harvested after 5-7 years with a yield of 105-150 m^3/ha. The majority of Guangxi eucalyptus timber is used for paper and plywood production.

Wood Processing Sector

Industry sources project continued growth in China's wood processing industry in 2021 and 2022, although not as rapid as in previous years, in response to growing demand. On the one hand, demand will continue to be bolstered by rising household incomes and an increasing consumer preference for wood finishing vs. plastic or other industrial materials. On the other hand, demand will be somewhat dampened by a deceleration in new construction due to Chinese government efforts to combat housing speculation.

Wood product manufacturers are facing substantial pressure from the high cost of raw materials since late 2020, including timber, chemicals, paint, and hardware. Raw material prices reportedly increased more than 30 percent between December 2020 and May 2021 and the increasing price trend is expected to continue for several months. According to local media reports, some factories have suspended or slowed operations in response to the soaring raw material prices.

[1] Source: China's 9th National Forest Resources Census (2014-2018)

Industry sources report that the percentage of furnished vs. non-furnished apartments is increasing. The result is a shift in the sales channel for furniture, wherein more and more manufacturers are selling to real estate developers rather than individual consumers. In first-tier cities, furnished apartments reportedly account for over 80 percent of total new apartments. In addition, the rapid development of the custom-made interiors sector has reduced the production and sales of traditional furniture and flooring products.

Wood-Based Paneling

China is the largest wood-based paneling producer in the world, accounting for roughly half of global production. Production in 2021 is forecast at 310 million m^3, about 11 percent higher than an estimated 280 million m^3 in 2020, driven by strong demand from the domestic and international markets. China's wood-based paneling production is mainly concentrated in Shandong, Jiangsu, and Guangxi province, which together account for about 60 percent of the country's total production.

A tight domestic timber supply in 2020 and 2021 has pushed up the price of solid wood products relative to wood-based paneling, the latter of which has a relatively high wood utilization rate (requiring a lesser volume and quality of wood input for an equivalent amount of final product). Demand for wood-based paneling has risen in response to lower relative prices.

Plywood accounts for about 60 percent of China’s total wood-based paneling production. According to industry sources, there were more than 15,200 plywood manufacturers in operation at the end of 2020 and about 2,000 additional manufacturers in the process of constructing facilities to enter the sector in early 2021. It is expected that by the end of 2021, total production capacity for plywood products will exceed 270 million m^3 per year. China's plywood production is mainly concentrated in Shandong, Jiangsu, Guangxi, and Anhui provinces, which together account for about 80 percent of national production.

Fiberboard accounts for about 20 percent of China’s total wood-based paneling production. Industry sources report that there were about 400 active fiberboard manufacturers at the end of 2020 and about 20 fiberboard processing lines under construction in early 2021. Total fiberboard production capacity is projected to reach 55 million m^3 annually by the end of 2021. China's fiberboard production is mainly concentrated in Shandong, Jiangsu, Guangxi, and Guangdong provinces, which together account for over 50 percent of the national production.

Particle board accounts for about 10 percent of China’s total wood-based paneling production. Industry sources indicate that there were over 300 particle board manufacturers at the end of 2020 and over 20 particle board processing lines under construction in early 2021. It is projected that by the end of 2021, total annual production capacity for particle board products will reach 40 million m^3. China's fiberboard production is mainly concentrated in Jiangsu, Shandong, Guangxi, and Hebei provinces, which together account for about 70 percent of the national production.

In recent years the Chinese government has promoted reductions in environmental impacts from the use of chemicals in wood-based panel production. For example, on June 24, 2020, China's Ministry of Ecology and Environment issued the *2020 Volatile Organic Compounds Governance Tackling Plan* aimed at encouraging green development in the sector. In addition, the government has formulated a series of standards aimed at harmonizing operations across the wood-based panel sector. On March 9, 2021, the General Administration of Market Supervision and the National Standards Committee jointly issued GB/T 39600—2021, *Classification of Formaldehyde Emissions of Wood-Based Panels and Products*, and GB/T 39598-2021, *Guidelines for Indoor Bearing Limits of Wood-Based Panels Based on Limit Formaldehyde Emission*. Both standards will be implemented on October 1, 2021.

Wood Furniture

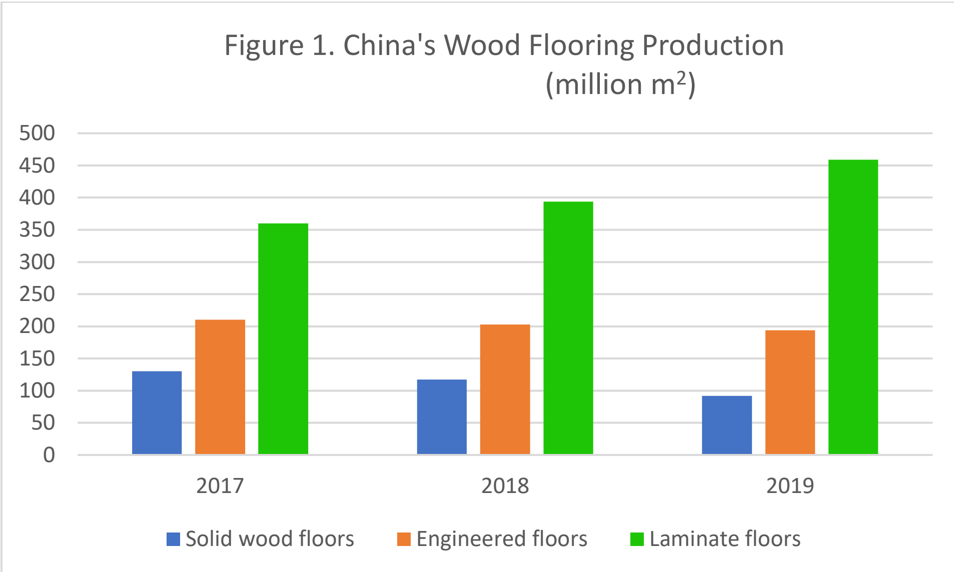
As one of the largest wood furniture producers in the world, China produces 250-320 million pieces of wood furniture annually. Industry sources indicate that 2020 production was around 300 million, down slightly from 2019 due to reduced operations during the COVID-19 outbreak. The production situation in 2021 is difficult to forecast. On the one hand, market demand is strong, especially for exports. The export value of wooden furniture increased by nearly 80 percent during the first quarter of 2021, with exports to the United States increasing by 125 percent. On the other hand, the prices of raw materials have risen sharply, making manufacturers extremely cautious when developing production plans and accepting orders.

Panel furniture accounts for an estimated 60 percent of total wood furniture production, with solid wood furniture taking the remaining share. There are three emerging furniture styles in China's market: the new Chinese style (a combination of traditional Chinese style and western style), minimalist (extremely simple), and light luxury.

China's wood furniture production is mainly concentrated in south China. According to industry sources, Guangdong, Zhejiang, and Fujian provinces together account for about 45 percent of China's total production. While Guangdong remains the largest producer in China, it's share has fallen below 20 percent as many factories moved to other provinces, or to Vietnam and other Southeast Asian countries, to reduce production costs. Additional information about the Vietnamese wood processing sector is available in the USDA GAIN report VM2020-0058.

Wood Flooring

According to China's State Forestry and Grassland Administration, wood flooring production totaled 789 million m^2 in 2019, a six percent increase from the year before. The production of solid wood flooring was 92 million m^2, engineered flooring 194 million m^2, and laminate flooring 459 million m^2. In recent years the market share of laminated flooring has been increasing to the detriment of solid wood and engineered flooring. Jiangsu, Zhejiang, Anhui, and Shandong provinces are China's largest wood floor producers, accounting for over 60 percent of production.



The manufacturing sector is actively calling for the cancellation of the consumption tax on solid wood flooring. The five percent tax has been imposed on solid wood and engineered flooring since 2006, purportedly to bolster protection of the nation's forests. But manufacturers contend that the tax is no longer necessary, given that the bulk of timber for solid wood flooring is now supplied by imports from sustainably managed forests. According to China's National Forest Products Industry Association, imported timber accounts for about 90 percent of the timber used for the manufacture of solid wood flooring, of which 74 percent is from the United States, Oceania, and Europe. Moreover, industry argues that a cancellation of the tax is crucial to their survival as profit margins become thinner.

Trade

China's overall wood product imports are expected to increase slightly in 2021 compared to the previous year due to robust demand and low domestic inventory, with a larger volume of softwood imports making up for reduced hardwood imports. Import growth will be tempered by high prices and strong demand in overseas markets. China's overall wood product exports are expected to increase due to strong international demand.

Russia is China's leading timber supplier overall (softwood and hardwood products combined), with a 27 percent market share of China's log and lumber imports (Round-wood equivalent). Russian timber is popular among Chinese importers due to its competitive prices and good quality. However, new Russian timber export policies [see Softwood logs section below] may disrupt its supply availability and create an opportunity for U.S. hardwood lumber. U.S. and Russian hardwood are close substitutes, both being temperate products and having many similar species.

Imports

Softwood logs

China's overall softwood imports are projected to mark a year-on-year increase in 2021 based on ample supply and favorable prices. Softwood log imports are forecast at 54 million m^3 in 2021, up about 15 percent compared to 2020. Over the past three years, storms, drought, and pests have inflicted significant damage on European softwood forests, especially in Germany, imposing a premature harvest and thereby bolstering the supply of softwood lumber on the world market. Chinese industry analysts estimate that between 2018 and 2024, about 500 million m^3 of European spruce will have been harvested early due to pest or weather damage. In mid-August 2020, the German government reported that 178 million m^3 of damaged trees had to be harvested ahead of schedule. Additional information about the German forestry situation is available in the USDA GAIN Report GM2020-0053.

China's softwood log imports increased by 34 percent in the first quarter of 2021. The previous year, New Zealand maintained its spot as China's number one softwood log exporter, accounting for 34 percent of total imports, followed by Germany (21percent), Russia (nine percent), Australia (nine percent), the Czech Republic (seven percent), and the United States (five percent). China is currently importing 80 percent of the raw logs shipped out of New Zealand. Additional information about the New Zealand wood products and forestry sector are available in the USDA GAIN report NZ2020-0004.

China's softwood log imports from Germany increased nearly 130 percent during the first quarter of 2021 compared to the same period in the previous year. Softwood log imports from Germany reached 10 million m^3 in 2020 compared to 3.8 million m^3 in 2019 and 0.2 million m^3 in 2018. Likewise, Czech softwood log exports to China increased significantly over the past three years, totaling 3.4 million m^3 in 2020 compared to 2.3 million m^3 in 2019 and 0.17 million m^3 in 2018. In comparison, the United States, Canada, and Russia lost market share during the same period due to a price disadvantage, with the U.S. share falling from 12 percent to five percent, Canada's dropping from six percent to two percent, and Russia's down from 19 percent to nine percent.

New Zealand is projected to remain China's leading softwood log exporter over the next few years due to competitive pricing. Europe will continue to build its market share due to the impact of forest damage on supply and prices. Strong U.S. demand for softwood timber is expected to consume the vast majority of U.S. and Canadian supplies, constraining North American exports to China. The Russian share in China's softwood log imports will be hampered by government policy. After discouraging log exports for several years, Russia will reportedly implement an export ban on softwood logs and high-value hardwood logs on January 1, 2022. In addition, Russia is said to be considering new regulations to reduce exports of untreated or roughly processed lumber in order to support value-added wood product exports. Australian log exports to China have faced increasing difficulties beginning in October 2020, with China pointing to quarantine concerns to impose import barriers on log exports from six Australian states (Queensland, Victoria, Tasmania, South Australia, New South Wales, and Western Australia).

Softwood lumber

2021 softwood lumber imports are forecast at 22 million m^3, about 12 percent lower than the previous year (25 million m^3) due to the high prices. According to China Customs data, the average price of softwood lumber increased about 15 percent during the first quarter of 2021 compared to the same period in 2020. In particular, prices for softwood lumber from Canada, China's second largest softwood lumber supplier, were up 63 percent in the first quarter of 2021 over the same period in the previous year. Consequently, China's softwood lumber imports decreased by about 23 percent in the first quarter of 2021. Russia continues to be China's number one softwood lumber supplier, with 59 percent of the market followed by Canada with a 12 percent share.

Hardwood logs

In contrast to the growth in overall softwoods imports, China's hardwood imports are forecast to decrease in 2021 compared to the previous year due to tight supply and high prices. Hardwood log imports are forecast at 11 million m^3 in 2021, down about 10 percent from 2020. Papua New Guinea is the largest hardwood log exporter to China, accounting for 21 percent of China's total imports in 2020, followed by the Solomon Islands (16 percent), Russia (15 percent), and the United States (5 percent). According to China Customs data, the average price of hardwood logs from Papua New Guinea increased about 12 percent during the first quarter of 2021 from the same period of 2020.

Hardwood lumber

China's hardwood lumber imports are forecast at 10 million m^3 in 2021, up 11 percent over an estimated 9 million m^3 in 2020 based on robust demand from the furniture manufacturing sector. Thailand is China's largest hardwood lumber supplier, accounting for 39 percent of total imports, followed by the United States with 15 percent share and Russia with 12 percent. The majority of hardwood lumber from Thailand is rubberwood, which belongs to the maple family. Strong and cheap, rubberwood is ideal for low and medium end furniture production. China Customs data puts the average price of Thailand rubberwood lumber at $347/ton in 2020, while the average price of U.S. maple lumber is $740/ton. The majority of imported U.S. hardwood lumber is used for high-end furniture manufacturing and high-end interior decoration.

Exports

China's overall wood product exports are expected to increase in 2021 due to strong international demand, especially from the United States. According to U.S. Census Bureau data, U.S. wood furniture (HS codes 940161, 94016900, 94033000, 94034000, 94035010, 94035091, 94035099, 94036010,94036091, 94036099) imports increased 45 percent during the first quarter of 2021. Imports from China increased 55 percent and accounted for 40 percent of total U.S. imports. During the first quarter of 2021, Vietnam surpassed China to become the largest wood furniture exporter to the United States with a 41 percent market share. The United States continues to be the largest importer of China's wood furniture, accounting for about 30 percent of China's total exports. Due to the tense bilateral relationship, Chinese industry has sought to reduce risk by seeking additional export markets, with Chinese exports to the U.K., Japan, and Europe all increasing in 2020.

China's 2021 plywood exports are forecast at 6 million tons, a 15 percent increase over 2020 based on strong international demand. The United States was previously the largest buyer of Chinese plywood, accounting for 15 percent China's plywood exports in 2017. A 10 percent tariff was imposed on China's plywood in September 2018 and increased to 25 percent on June 1, 2019. As a result, China's plywood exports to the United States declined to 256,355 tons in 2020 from 909,210 tons in 2017. Philippines is the largest importer of China's plywood products, accounting for nine percent of China's total exports, followed by Vietnam with a seven percent share and the United Kingdom with six percent.

Policy

On February 26, 2021, the Ministry of Finance published Tariff Commission Announcement No. 2 (2021) of the State Council Customs Tariff Commission (SCCTC), which extends the Section 301 tariff exclusions on 65 U.S. tariff lines, including five hardwood lumber categories (HS codes 44039100, 44039960, 44079100, 44079400, and 44079500) through September 16, 2021. Additional information on the tariff exclusions is available in the USDA GAIN report CH2021-0028. Importers may also apply for tariff exclusions for products that are not included on the eligible product list. Information on the procedure through which importers can apply for tariff exclusions on specific products is available in the USDA GAIN report CH2020-0017.

China's revised Forest Law entered into force on July 1, 2020. The amended regulation includes a ban on knowingly buying, processing, or transporting illegally sourced timber. In addition, the law requires processing companies to maintain a system of "input and output accounting" of raw materials and finished products. This revision is a significant development given that China is the world's top importer of illegal timber, and the United States and other governments have asked China to make such a change for well over a decade. If China enforces the law effectively, it would be a major step to level the playing field in the global timber and wood-products sector. Chinese action to curb the import of illegal timber would benefit both wood-product manufacturers and timber exporters in the United States and in other countries that ban trade in illegal and/or unsustainably harvested timber since legally sourced wood tends to cost more than illegal timber, giving cost advantages to manufacturers using illegal timber. An effective ban on illegal timber would also push Chinese demand toward legally and sustainably harvested forests, including in the United States. However, industry sources indicated that the new restriction on illegal timber could encounter many challenges in practice. Contacts cautioned that China's National Forestry and Grassland Administration is currently leading an effort to draft implementation regulations for the Forest Law, and those regulations might be weak. For example, they could be written to require only that Chinese importers show customs paperwork stating imported wood is legal, documents that can easily be manipulated. If China takes such an approach, it would leave current practice, which is significantly weaker than the U.S. Lacey Act, largely unchanged. The Lacey Act requires importers to conduct due diligence regarding legality.

Attachments:

No Attachments.