USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Voluntary - Public

Date: 9/28/2018
GAIN Report Number: 8703

Japan

Post: Osaka ATO

Hardwood Report 2018 Japan

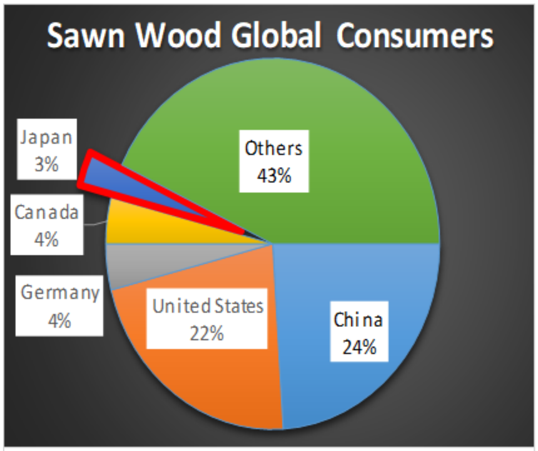
Report Categories:
Wood Products

Approved By:
Jeff Zimmerman – ATO Director - Osaka
Prepared By:
Kenta Kubokawa – Agricultural Marketing Specialist

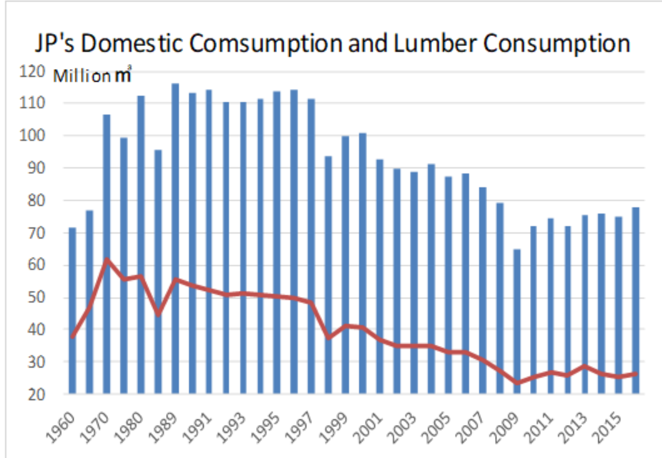
Report Highlights:
In 2017, Japan was the 6th largest market in the world for U.S. hardwood exports valued at $63 million. Japan relies heavily on foreign supply to meet its domestic demand even with abundant forest resources that cover 70% of its territory. In 2017, the most exported U.S. hardwood species to Japan was Walnut followed by White Oak, Ash, Red Oak, and Maple. U.S. cherry wood is increasing in popularity and with consumption expected to grow in coming years. Around 70 percent of American hardwood is used in furniture with the remaining 30 percent used for flooring and other niche applications. A “café style” that combines hardwood and other materials (mainly metals and glass) is one of the main design trends currently in Japan.

Section I. Market Overview

1. Japan's Forest Products Market – Hardwood and Softwood Combined

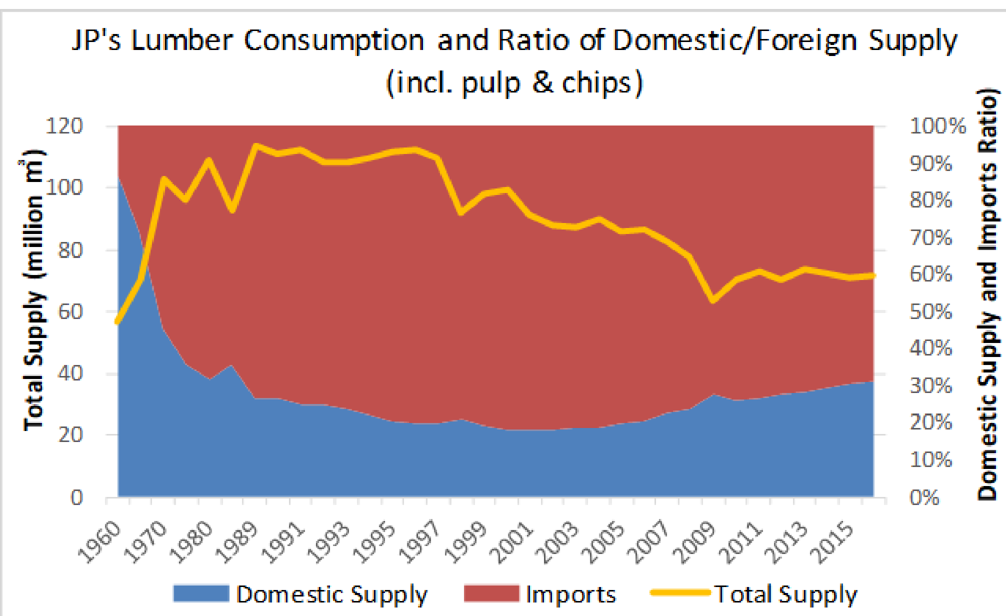


Source: Food and Agricultural Organization of the United Nations



Source: Forestry Agency Japan

Japan is one of the major global markets, currently ranked 5th in consumption of forest products. The market value, including tertiary supply chain value, is roughly US$240 billion (2.5 trillion yen) according to statistics from the Government of Japan (GoJ). In 2017, the market value attributed to imports as approximately US$89.5 billion. While the total amount of production and consumption (including imports) has been on a declining trend, Japan remains an important consumer and accounts for 4% of the global consumption of round wood and 3% of sawn wood.



Source: Forestry Agency Japan

More importantly for American exporters, Japan heavily depends on foreign supply to meet its domestic demand even with abundant forest resources that cover 70% of its territory. Of the 2016 global production, Japan's imports accounted for 3% of round wood, 4% of sawn wood, 5% of wood-based panels and 3% of pulp for paper according statistics from the Food and Agricultural Organization of the United Nations (FAO).

A census by GoJ also indicates the fact that Japan's self-sufficiency rate has plunged throughout decades, from above 80% to below 20%, with it currently returning up to only 30% in the last couple of years.

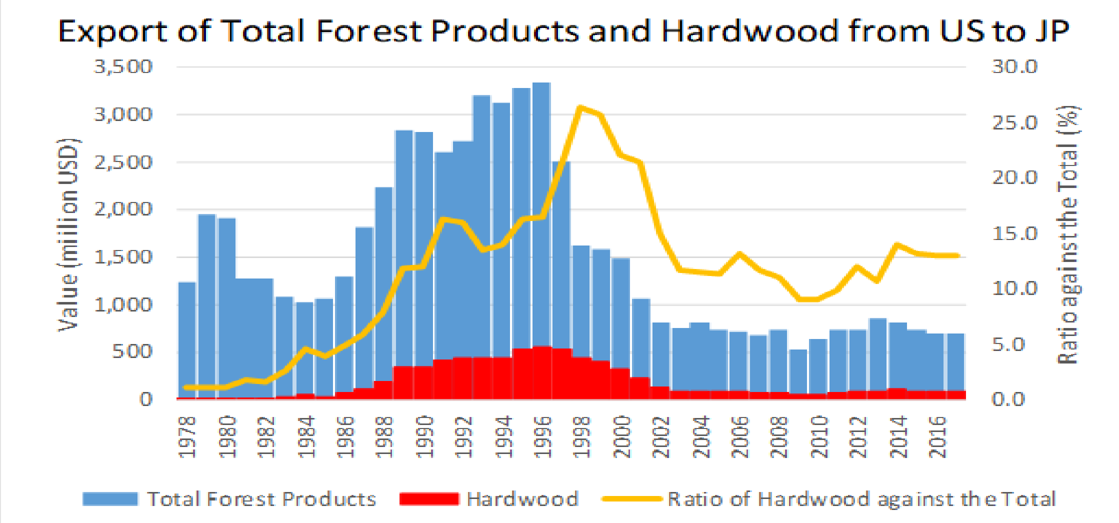
2. Japan's Hardwood Market

Domestic hardwood harvesting accounts for less than 5 percent of total Japanese lumber harvested annually, with softwood being the predominant sector. However, hardwood maintains a 60 percent higher per unit value in the market when compared to softwood.

Annually, the total amount of hardwood imported by Japan from the world is roughly 650,000 m3. This equates to a volume and value of 7 and 21 percent of the comparative softwood market, respectively. The top imported hardwood species is Dark Red Meranti (Shorea leprosula) followed by Beech (Fagus) and Oak (Quercus).

	The largest U.S. Hardwood Lumber Importers					
	Partner Country	Million USD				
		2013	2014	2015	2016	2017
1	China	812.96	1,095.96	965.11	1,196.21	1,506.44
2	Canada	263.04	298.93	249.39	247.48	259.09
3	Vietnam	154.85	184.64	154.66	157.24	191.44
4	Mexico	109.49	125.90	115.56	117.10	113.70
5	UK	61.23	84.79	75.58	80.90	78.90
6	Japan	61.77	84.24	69.14	61.63	63.17
7	Italy	56.56	55.77	43.43	38.09	41.69
8	Germany	33.99	39.99	35.61	38.46	38.22
9	Spain	19.68	30.30	38.50	36.35	38.06
10	Indonesia	19.36	18.10	21.25	20.81	23.09

Source: Global Agricultural Trade System

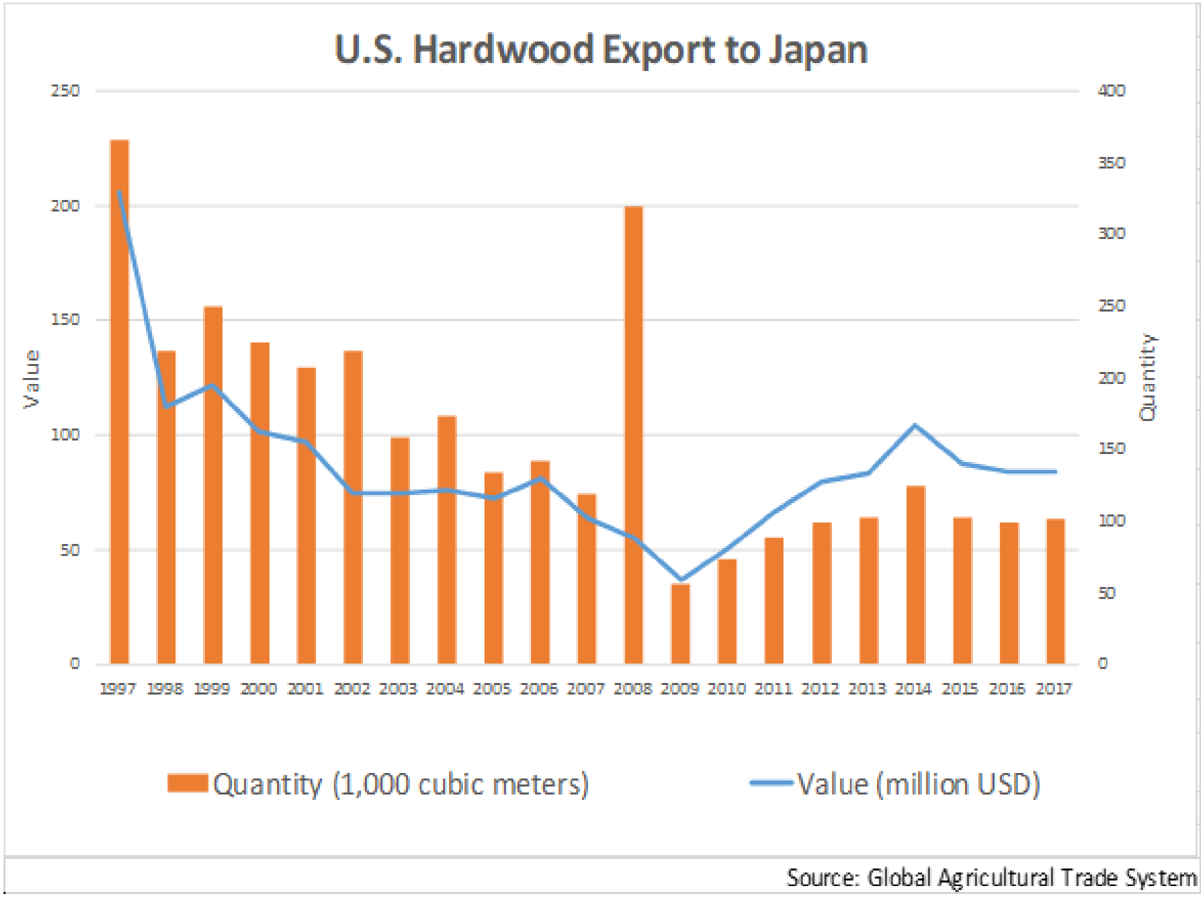


Source: Global Agricultural Trade System

3. American Hardwood in Japan

Japan is the 6th largest market in the world for U.S. hardwood exports. In 2017, U.S. hardwood exports to Japan were valued at US$63 million which equals 2.5 percent of the total forest products export value. U.S. hardwood export value peaked at US$150 million in 1993. Nonetheless, the United States is the second largest hardwood exporting country to Japan.

In 2017, the most exported U.S. hardwood product to Japan was Walnut lumber followed by Walnut logs, White Oak lumber and White Oak logs. Historically, White Oak was the top U.S. exported species to Japan. Walnut is now the top exported species with applications amongst furniture and interiors including doors and kitchens. Around 70 percent of American hardwood is used in furniture with the remaining 30 percent used for flooring and other niche applications.

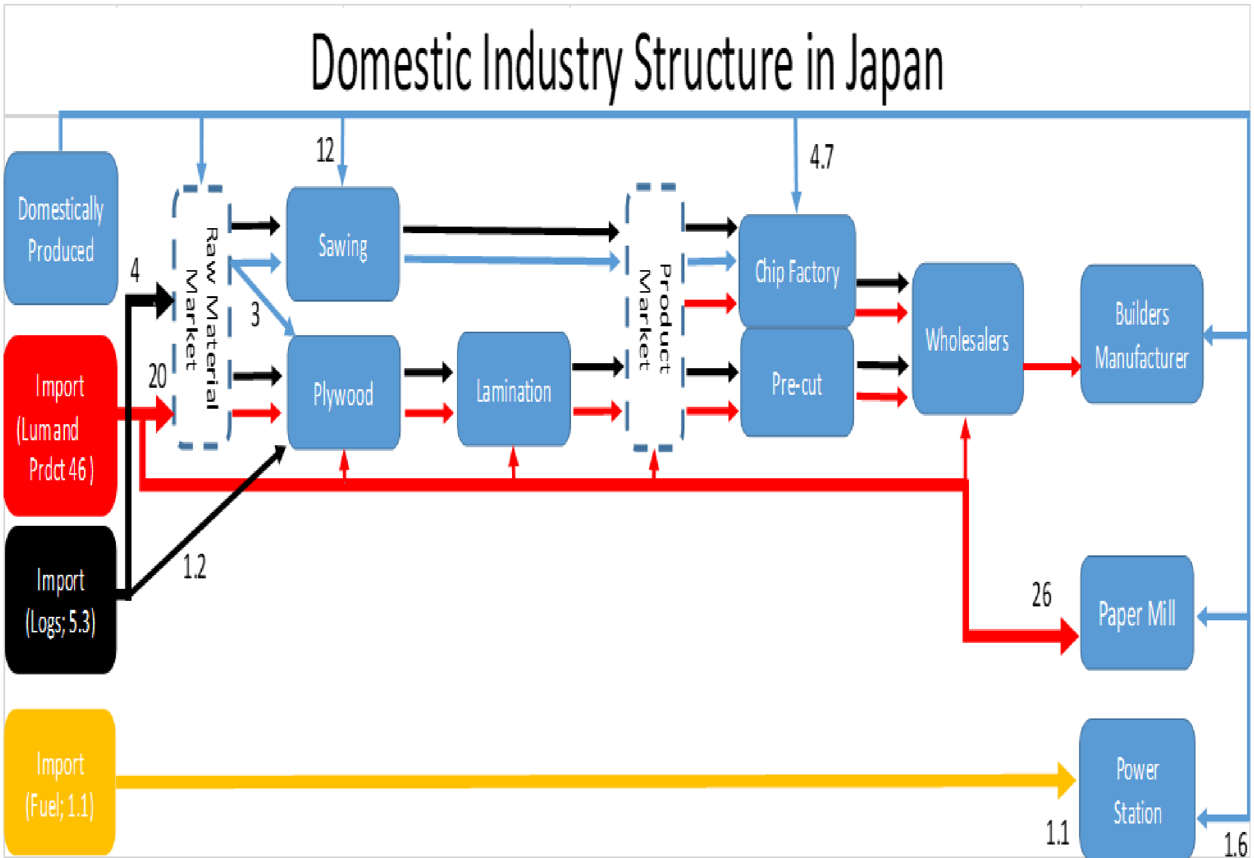


Section II. Domestic Industry Structure

1. Origination

Around half of domestic hardwood needs are imported and forwarded by general trading companies (called "sogo-shosha") to domestic distributers, manufacturers, and others along the value chain. There are reasons why some importers deal with logs and others carry lumber, which would include cost reduction and asset optimization in line with the demands of end users. If an importer has its own factory or workshop and a wide range of end users, it is more efficient to import logs and process it on their own in accordance with customer specifications. Hardwood distribution in Japan is divided as follows: 60 percent originating from trading companies, 20 percent from independent importers and 20 percent from manufacturers, including sawing and plywood factories for example. For their part, domestic manufacturers' source over 90 percent split evenly between trading companies and independent importers. Hence, direct import by manufacturers is less than 10 percent of the total.

2. Domestic Distribution



Reproduced from Forestry Agency Japan ; Unit million m³

After arriving to Japan's market, American hardwood mainly is destined for manufacturers of furniture and fine-finished interior design materials. The figure above applies mainly to softwood distribution in Japan, but does provide a schematic for some hardwood and residual materials. It is oversimplifies the wholesaler distribution, which in practice may involve second- or third- or higher-tiered wholesalers before delivery to end-users. Wood dealt through closed auction markets is less than a few percent.

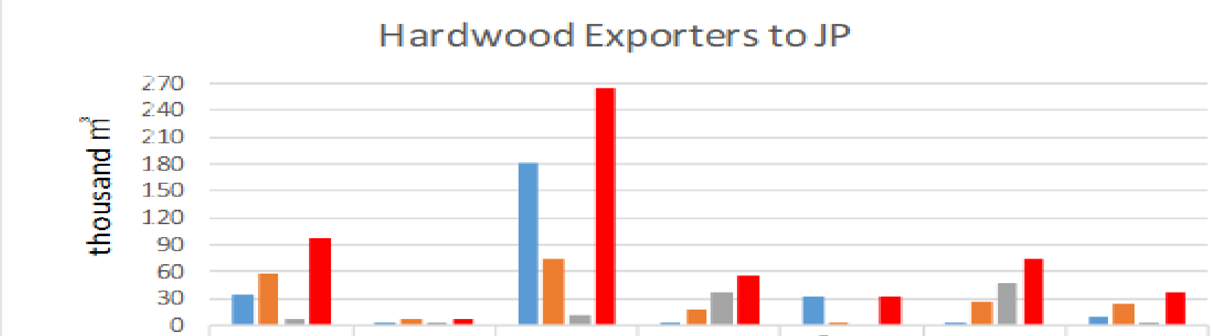
3. Major Handlers of American Hardwood

Unfortunately less major importers and manufacturers dealing with American hardwood are found in Japan as to hardwood, unlike as softwood. To take an example (local importers and manufacturers; please contact us if you would like to get in touch with those players), "Hattori Shoten,"Maruyone Shokai" and "Mitsuhashi Sangyo". Another importer which can be added is Sojitz (a larger trading house).The main player would be wholesalers even though most of them are small- and medium-sized businesses. This is because of a shift in the industry structure and international economic environment, i.e. they import more American lumber, pre-cut products and some amount of finished products via third countries. Hence, not so much American hardwood is now processed domestically in Japan by Japanese sawing companies for instance.

Section III. Global Competition

	The Largest Hardwood Exporters to Japan						
	Partner Country	2015		2016		2017	
		Million USD	Quantity 1,000 tons	Million USD	Quantity 1,000 tons	Million USD	Quantity 1,000 tons
1	Malaysia	111.06	231.8	97.98	214.5	76.61	163.3
2	United States	79.79	56.8	69.96	51.8	71.29	48.4
3	China	32.96	26.5	25.60	20.4	17.97	14.6
4	Indonesia	16.39	18.8	15.57	19.7	14.10	19.1
5	Canada	11.88	7.1	10.24	6.7	7.85	5.5
6	Germany	4.83	8.2	5.47	9.9	5.86	10.5
7	Papua New Guinea	1.78	4.5	4.46	15.7	5.82	20.1
8	Russia	4.13	4.2	4.82	4.5	5.29	4.4
9	Italy	5.26	5.3	3.20	3.0	3.45	2.9
10	Taiwan	2.81	2.0	2.39	1.5	2.84	1.5

Source: Global Agricultural Trade System



	US	Canada	Malaysia	Indonesia	Papua New Guinea	China	EU
Logs	34.2	0.1	179.8	0.0	31.7	0	10.0
Lumber	56.8	7.1	73.7	18.8	0.4	26	23.6
Processed	6.8	0.4	10.9	37.2	-	48	2.1
Total	97.8	7.6	264.4	55.9	32.1	74.6	35.8

Source: Forestry Agency Japan

The largest competitor to the United States and largest exporter to Japan is Malaysia with 264.4 thousand m3 valued at US$76.6 million in 2017. This export volume is over three times as much as the United States, but on value terms both countries are very similar. At above US$70 million annually, Malaysia and the United States rise predominantly above the competing hardwood exporting countries to Japan, namely China, Indonesia, Canada, among others.

The United States competes with Malaysia on lumber exports to Japan with 56.8 thousand m^3 against 73.7 thousand m^3, respectively. China and Indonesia outperform other exporters in processed hardwood products to Japan. This is mainly driven by pre-cut furniture pieces assembled after importation. China and Indonesia's competitiveness in interior materials and furniture is driven by improved quality of processing, skills and technic coupled with advantageous labor cost. The same is also true with Vietnam, though its exports are not captured in this graph due to a lapse in their data set.

U.S. Most Exported Spiecies to JP (log, Million USD)	1997	2002	2007	2012	2017
Walnut	2	2	6	8	11
White Oak	35	9	9	9	9
Cherry	-	1	1	2	2
Other Temperate	4	3	7	2	1
Maple	1	3	3	1	1
Paulownia	4	1	1	1	1

Source: Global Agricultural Trade System

U.S. Most Exported Spiecies to JP (lumber, Million USD)	1997	2002	2007	2012	2017
Walnut	2	5	10	16	26
White Oak	39	8	6	12	9
Ash	17	5	4	6	7
Red Oak	14	2	1	4	6
Maple	11	5	5	6	4
Yellow Poplar	14	6	2	4	3
Cherry	1	1	2	4	3
Other Temperate	20	12	2	4	3
Western Red Alder	19	2	3	2	1

Source: Global Agricultural Trade System

Based on species, the United States and China compete in Ash and Oak as they are predominately exported as lumber. U.S. hardwood exports in value are led by Walnut and White Oak in both forms of lumber and logs, followed by Ash, Red Oak and Maple. The leading species exported from China is Ash, Oak and Princess tree (or Foxglove-tree; Paulownia tomentosa). Malaysia produces chinquapin (Castanopsis), Live Oak, Camphor (Cinnamomum camphora) and Camellia while Ulin (or Iron Wood; Eusideroxylon zwageri), Live Oak and Ramin (Gonystylus) come from Indonesia. The leading species of China is Ash, Oak and Princess tree (or Foxglove-tree; Paulownia tomentosa).

U.S. hardwood enters the Japanese market at a higher average price point than all other competing exporters. Indeed, the price for U.S. hardwood has more than doubled over two decades to a lumber export price in 2017 of US$966.5 per unit ($m^3$) on average. Nevertheless, American products remain competitive in the Japanese market as they are preferred for their high-quality and demanded in high-end market segment, luxury hotels for instance.

Section IV. Trends

1. Product and Consumer Trends

Combination of hardwood and other materials (mainly metals and glass) is one of the main design trends currently in Japan. So-called “café style” design, as seen in these adjacent photos, is rising in popularity among consumers, according to local retailers. Popularity is not the only driver, but fusion across materials is more affordable while offering a sophisticated interior because of its uniqueness; a movement away from the ordinary conventional image of furniture.


Kitchen design profile is also increasing in popularity among consumers. More consumers, especially the newly-married and younger families, who are investing in longer term residences prefer a wood cabinetry with Walnut being the most popular.
It is becoming clear that Japanese consumers divide into two classes; the price-oriented versus the quality-oriented. The former tend to purchase interior products at discount mass-targeted shops, for example *IKEA* and *Nitori*. These two store chains are fairly well-recognized among ordinary Japanese consumers and growing rapidly. On the other hand, high-end furniture manufacturers and retailers - *IDC Otsuka*, *Morishige*, *Karimoku*, *Conde House* - mainly target high-class hotels, office complexes and the central and local government agencies.

Demographic changes also weighs heavily with more elderly nursing care complexes being constructed or renovated as the population of the elderly is skyrocketing. For these projects, wood products are preferred for their softer sense of touch, healing image and functional attributes. The same perceptions apply to kindergarten facilities, where more are now seen with wooden structures inside and outside from floors to ceilings.


2. International Influence

The reputation for Japanese furniture being of high-quality and distinct from others continues to rise across the region. For example, South Korea, Taiwan, Hong Kong, China, Singapore, among others value Japanese furniture. Also, Japanese furniture has been displayed in highly regarded venues, such as “Salone del Mobile Milano” and “imm cologne”. Of note, U.S. hardwood is a key material used in these high-quality Japanese furniture designs.

Single-cut products are not high-volume given their price. Nevertheless, some in the upper class look at the best quality Japanese-made furniture (tables in the most cases) for the purpose of investment, particularly in the Chinese cultural sector. According to GoJ statistics, the total value of furniture export from Japan to the world reached around US$1 billion (100 billion JPY) which is double the value 20 years ago. Major destinations include Korea, Taiwan, Hong Kong, China, Philippines and Thailand. Exports are expected to grow as income levels in the neighboring nations rise.

3. Policy and Regulation

The GoJ is supporting the promotion of Japanese wood products through its policy making. These developments will be an advantage for American hardwood.

The Clean Wood Act, entered into force in 2017, is the foundation policy that is aimed to ensure domestic operators carry only legally-supplied lumber and wood products. Compliance and enforcement is not stringent with operators required to obtain and keep verification every 5 years. The origin of some products would not necessarily be clear in some cases, whereas the origin of U.S. product is consistently and easily verifiable. This is a big advantage for wholesalers and retailers and reduces transactional costs association with origin verification along the distribution channel from harvesting abroad to finished-product manufactures in Japan. The Promotion for the Use of Wood in Public Buildings Act was implemented in 2010 in order to increase of usage of wood. Although the Act itself is predicated on a desire to increase domestic wood consumption, it is unrealistic to assume all the building needs can be met with only domestic products. Hence, there will continue to be a market for U.S. softwood and hardwood when considering a variety of factors including cost, distribution, time scale, strength or softness of materials and etc.

Section V. Key Events and Contacts

1. Events

- Interior Lifestyle Tokyo (late May or early June)
http://interiorlifestyle-tokyo.jp.messefrankfurt.com/tokyo/en/visitors/welcome.html

- IFFT/Interior Lifestyle Living (Tokyo, November)
http://ifft-interiorlifestyle-living.jp.messefrankfurt.com/tokyo/en/visitors/welcome.html

More local exhibitions and trade shows can be found and AHEC, American Hardwood Export Council, is very active in organizing study tours to local production centers in Japan.

2. Contacts

	AHEC Japan	Agricultural Trade Office Osaka, USDA (General inquiry)
Address	US Consulate General 2-11-5, Nishi-temma, Kita-ku	US Consulate General 2-11-5, Nishi-temma, Kita-ku
	Osaka	Osaka
	Japan Post Code: 530-0047	Japan Post Code: 530-0047
Telephone	+81 6 6315 5101	+81 6 6315 5904
Fax	+81 6 6315 5103	-
Email	info@ahec-japan.org	ATOOsaka@fas.usda.gov
Website (Japanese)	www.ahec-japan.org	-
Representative	Mr. TSUJI, Takahiro	Mr. KUBOKAWA, Kenta