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The Great Wall of Wood: China and the Global Wood Market

This is the first part of a two-part series assessing the implications of China's rising manufacturing might and market influence on responsible corporate buyers of wood and paper products. An assessment on China and the paper market is forthcoming.

By Sheldon Zakreski

OVERVIEW

The American wood products market is changing rapidly and China is playing a significant role in driving some of these changes. Although corporate buyers of desks, doors, blinds and flooring might not be aware of this shift, China's emerging global presence has several economic and social implications to businesses in America and around the world.

The American solid wood market developed in the early 1900s with an emphasis on proximity along the supply chain. Forests, mills, distributors and manufacturers were all located near each other—sometimes even on the same stretch of road. Later in the 20th century, tropical species penetrated the U.S. market. The U.S. imports approximately \$250 million of tropical timber each year (International Tropical Timber Organization).

Today, the U.S. remains the largest market for wood products, but traditional trade patterns are changing rapidly, as solid wood manufacturers and tropical exporters shift their focus to China. This shift is driven by manufacturers seeking ways to lower costs and gain access to a lucrative new market.

As a result, in a little more than six years, China has gone from an insignificant player to the second-largest importer of wood products in the world.

A glance at China's wood market

The Chinese market for wood products has undergone a monumental change in the past several years. The volume of U.S. timber shipped to China between 1998 and 2002 increased from 6,819 to 92,490 cubic meters (m³). Their value grew 1,250 percent in this timeframe to \$42 million. During the same time period, Chinese demand for tropical wood has increased by 16 percent annually to 10.9 million m³. Chinese imports of softwood logs have also grown. China receives most of its softwood logs from Russia, whose shipments grew from 570,000 m³ in 1996 to 16 million in m³ in 2002.

Sources: Foreign Agriculture Service and International Tropical Timber Organization.

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WHAT DOES THIS MEAN FOR RESPONSIBLE BUYERS OF WOOD PRODUCTS?

While most of the focus in the press to date has been on the desire of companies to reduce costs and the growing economic power of China, these emerging trends could have environmental and social implications as well as some opportunities for corporate purchasers of forest products.

- **The importance of sourcing raw material from a certified well-managed forest**—While there is a substantial level of awareness surrounding third-party certification in North America, certification is nonetheless a relatively new concept to the Chinese forest products manufacturing industry.¹ This is important for buyers to consider mainly due to the fact that if they choose to purchase wood products from China the likelihood that the geographical source(s) of the wood will not be known is high. This lack of knowledge about where the forest products are coming from raises the possibility that the harvested wood originated from operations that lack any type of forest management, in addition to the risk that the raw material is from an ecologically or culturally significant forest.
- **The ability to mitigate the trade in illegally logged forest products**—Trade statistics for tropical species indicate that Chinese customs officials recorded substantially higher import volumes than those indicated by several exporting countries (International Tropical Timber Organization). Further, illegal logging is prevalent in several of the countries that are key suppliers to China. For example, in Russia and Indonesia it is estimated that 20 and 75 percent, respectively, of the total wood harvest is logged illegally (WWF European Forest Programme). While there are legal sources of wood being shipped to China, there is still a potential risk to buyers that forest products made in China contain illegally logged sources.
- **The importance of species types**—The market, while broadening, maintains a preference for a few select species, such as red oak, maple, mahogany and teak. In tropical forests in particular, this results in an imbalance between the number of species available versus those that are actually utilized. In some cases less popular species are being cut down and left on the forest floor in order to harvest the few species valued by the market. This practice is known as high-grading. However, many of these under-utilized species have favorable properties that can meet the needs of buyers in the marketplace. All they lack is name recognition. This creates an opportunity for North American wood buyers to generate market interest and develop a demand for such lesser-known species. This opportunity is bolstered by the fact that Chinese manufacturers are less resistant to using a diverse array of wood species. The challenge is that the marketplace assigns a limited number of trade names to different species types depending on end use. Clearly identifying species by their scientific name rather than trade name can increase awareness of new species entering into the market.

WHAT CAN BUYERS DO?

Although many of the factors—such as exchange rates and government policies—driving this shift are beyond the control of individual corporate buyers, businesses can still act responsibly and use their purchasing power to have a positive impact on forest management and production activities. The key is to engage suppliers and work with them to develop a collaborative approach that ensures this shift in trade pattern does not create barriers

¹ A review of Metafore's Certification Resource Center indicates that as of May 2004 there are 64 forest product manufacturers certified under the Forest Stewardship Council.

to purchasing responsibly harvested wood products. Some of the actions businesses can discuss with their suppliers include:²

- **Where is my wood coming from?**

Although they are not prevalent in China, tracking mechanisms and technologies can mitigate concerns that the raw material was illegally harvested or taken from an ecologically sensitive forest. Tracking options include those of the different certification systems and labeling technologies, such as hammer tagging, smart codes and nail-based labeling, that can be applied as the wood is prepared for shipment to the mill. Buyers can inquire with their suppliers about whether and how these tools are being applied to mitigate the uncertainty surrounding the origin of their wood products.

- **What type of wood am I buying?**

Understanding the species used in different products can provide useful insight. Learning about different species, trade names and material options can help companies avoid endangered or threatened species, and identify alternative species and materials that meet performance needs.

- **What types of environmental claims are being made about the wood that I am buying?**

Environmental claims may reduce concerns about forest management, labor conditions and pollution impacts associated with manufacturing a product. However, third-party verification provides the best assurances to a buyer on the environmental and social attributes of a purchase.

There are also some broader social and environmental issues that buyers might want to examine in greater detail, such as labor practices, workers' rights and workplace safety issues in the region. These are important to consider because there is the potential for a different baseline of social and environmental practices for products made in China as compared to developed countries such as the U.S.

There are also several important environmental impact issues to consider, such as inefficient use of energy and water, climate change, air pollution and solid waste generation. As a transforming economy, China lacks the environmental and labor standards as well as the enforcement capacity as those commonly seen in the more industrialized countries. As a result, businesses that source wood products from China face the risk that their purchases support suspect labor practices and create substantial negative environmental impacts. These concerns can be addressed by inquiring about third-party verifications on the environmental and labor practices of manufacturing facilities.

SUMMARY

As is often the case in the global economy, many forces are interacting to reshape a market before the consequences can be fully appreciated. The global wood market is no exception. In less than 10 years, China has come from nowhere to become the second-largest market for wood products.

Most of the factors causing the ground to shift are beyond any single company's influence. Still, this change creates challenges and opportunities for corporate buyers of wood products. The challenges include less certainty that the wood is derived from forest management operations that comply with environmental and

² To learn more about some of the actions buyers can take, see the Resources section below.

social standards, and less certainty that the wood comes from a legal source. The biggest opportunity for buyers lies in the increased diversity of wood types for a given product.

While the entirety of these consequences are not yet visible, examining the opportunities and challenges for North American businesses that are presented by China's emergence in the world wood market is a proactive first step in an evolving market.

REFERENCES

Foreign Agriculture Service, 2003. *Wood Products: International Trade and Foreign Markets Annual Statistical Trade Issue*. United States Department of Agriculture, Washington, D.C.

International Tropical Timber Organization, 2003. *Annual Review and Assessment of the World Timber Market Situation 2002*. International Tropical Timber Organization, Yokohama, Japan.

WWF European Forest Programme, 2004. "Scale of Illegal Logging Around the World."
https://www.wwf.de/imperia/md/content/pdf/waelder/Scale_of_illegal_logging_around_the_world.pdf

RESOURCES

- **Tracking options:** World Bank/WWF Alliance, "Technologies for Wood Tracking," <http://lnweb18.worldbank.org/essd/envext.nsf/80ByDocName/SustainableForestManagementForestLawEnforcementGovernancandTradeTechnologiesforWoodTracking>
- **Excluding illegally logged wood from your supply chain:** Tropical Forest Trust, "Good Wood, Good Business," <http://www.tropicalforesttrust.com/reports.asp>
- **The properties of different wood species:** U.S. Forest Service, Center for Wood Anatomy Research, <http://www2.fpl.fs.fed.us/TechSheets/techmenu.html>
- **The different endangered timber species:** Certification Resource Center, <http://www.certifiedwood.org/education-modules/beyond-certification/threatened-species.htm>
- **Verifying environmental product claims:** GreenBiz.com, http://www.greenbiz.com/toolbox/howto_third.cfm?LinkAdvID=4197

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