"Assessing International Markets: Prospects & Opportunities for Tropical Countries"

Richard Vlosky, Ph.D.
Director and Crosby Land & Resources Endowed Professor in Forest Sector Business Development
Louisiana Forest Products Development Center
Louisiana State University Agricultural Center

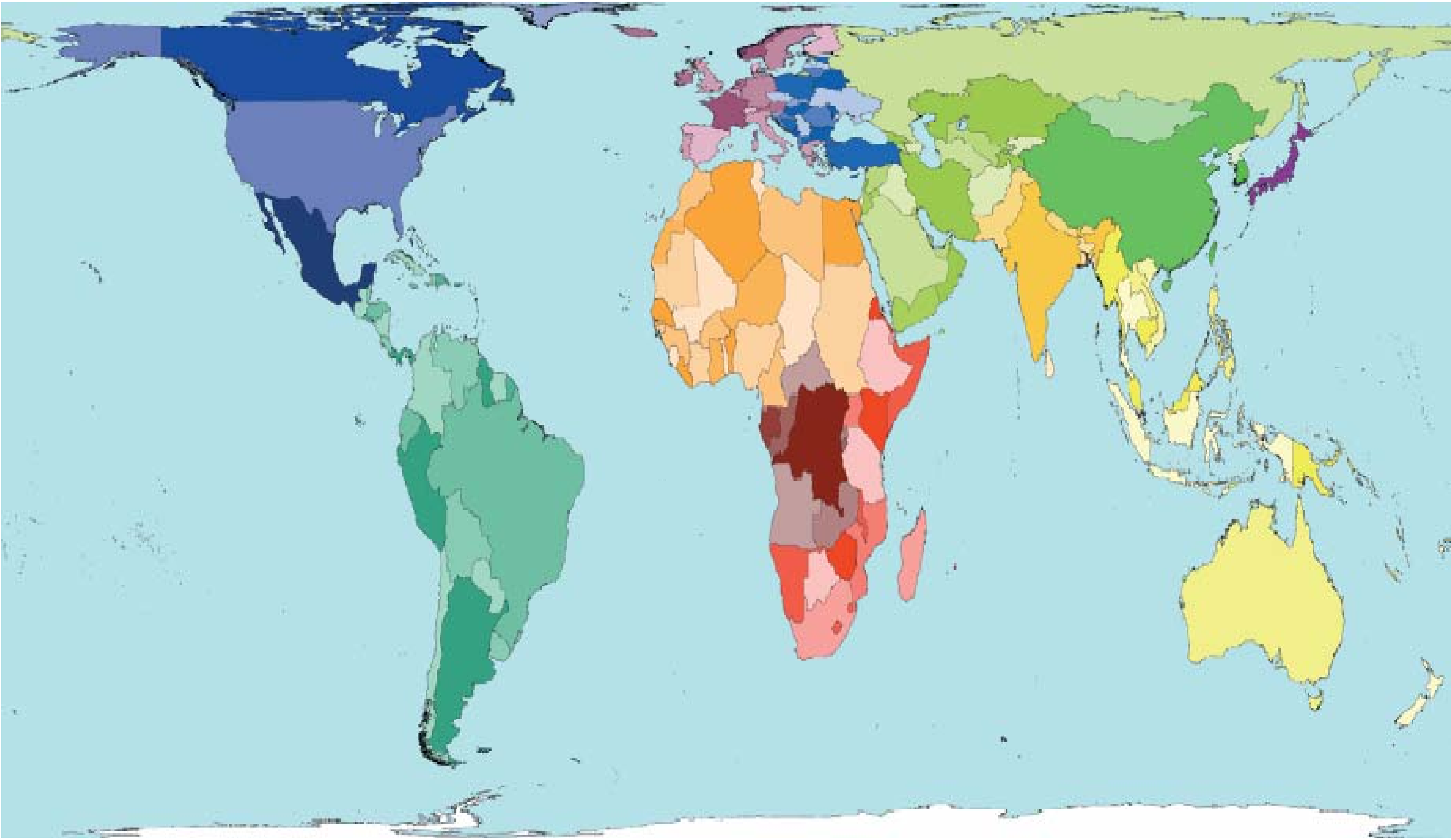
Capacity Building Workshop on Modern Technologies for Wood Based Industries in Sri Lanka
September 25-27, 2013

Louisiana Forest Products Development Center

Department of Forestry and Environmental Science
University of Sri Jayewardenepura

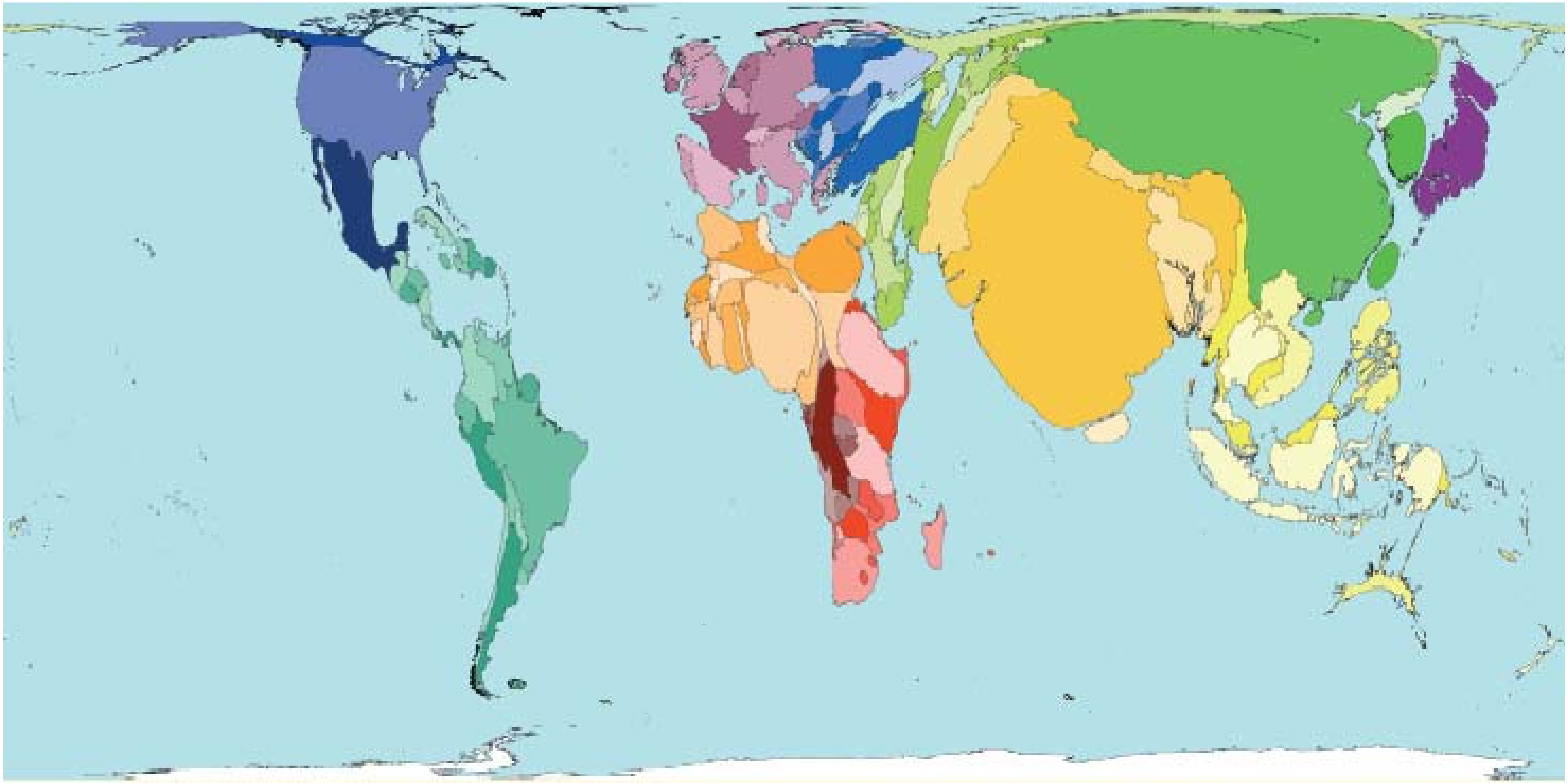
LSU AgCenter Research & Extension

A Map of the World



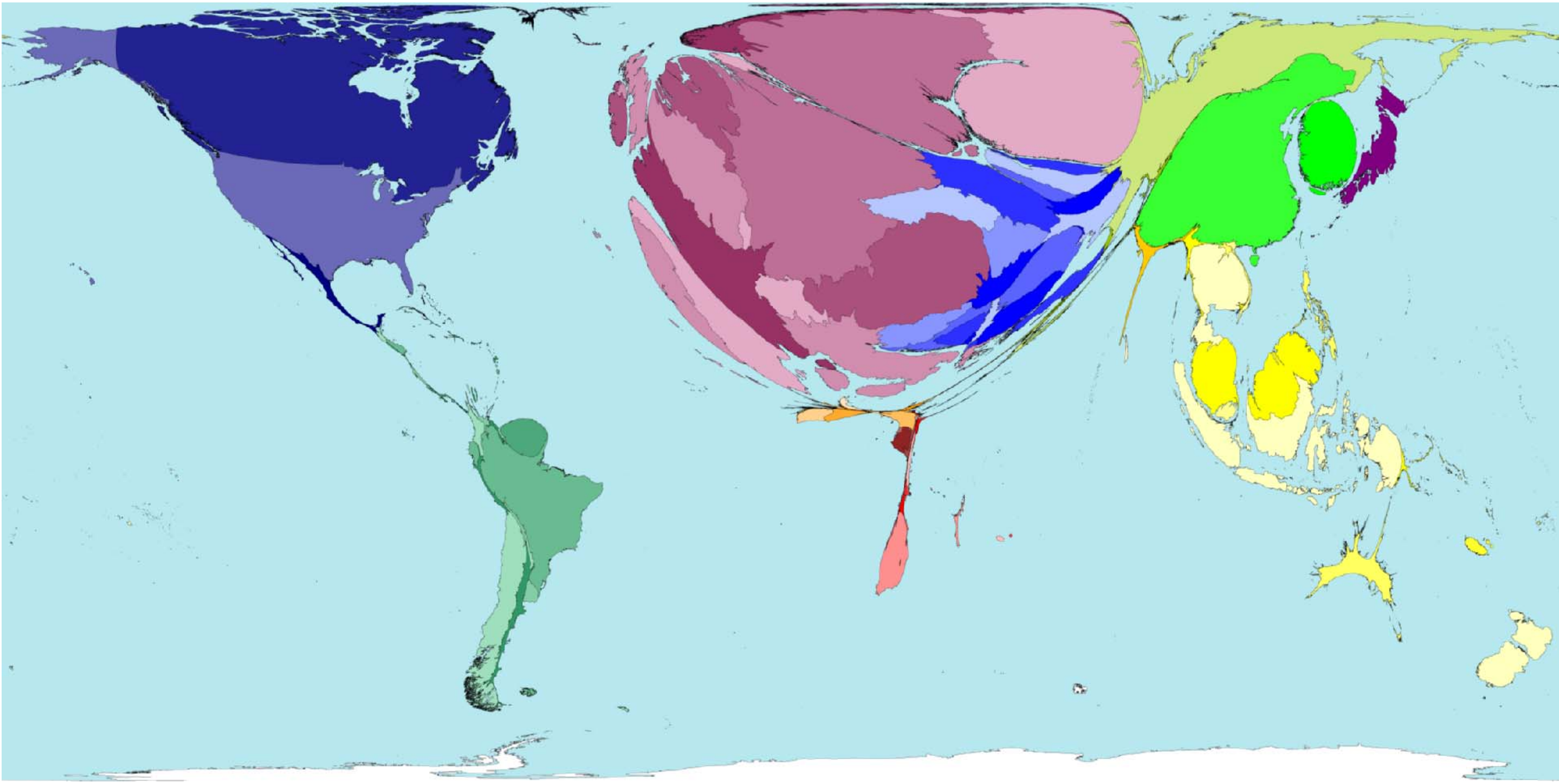
Source: Worldmapper

Global Population Map



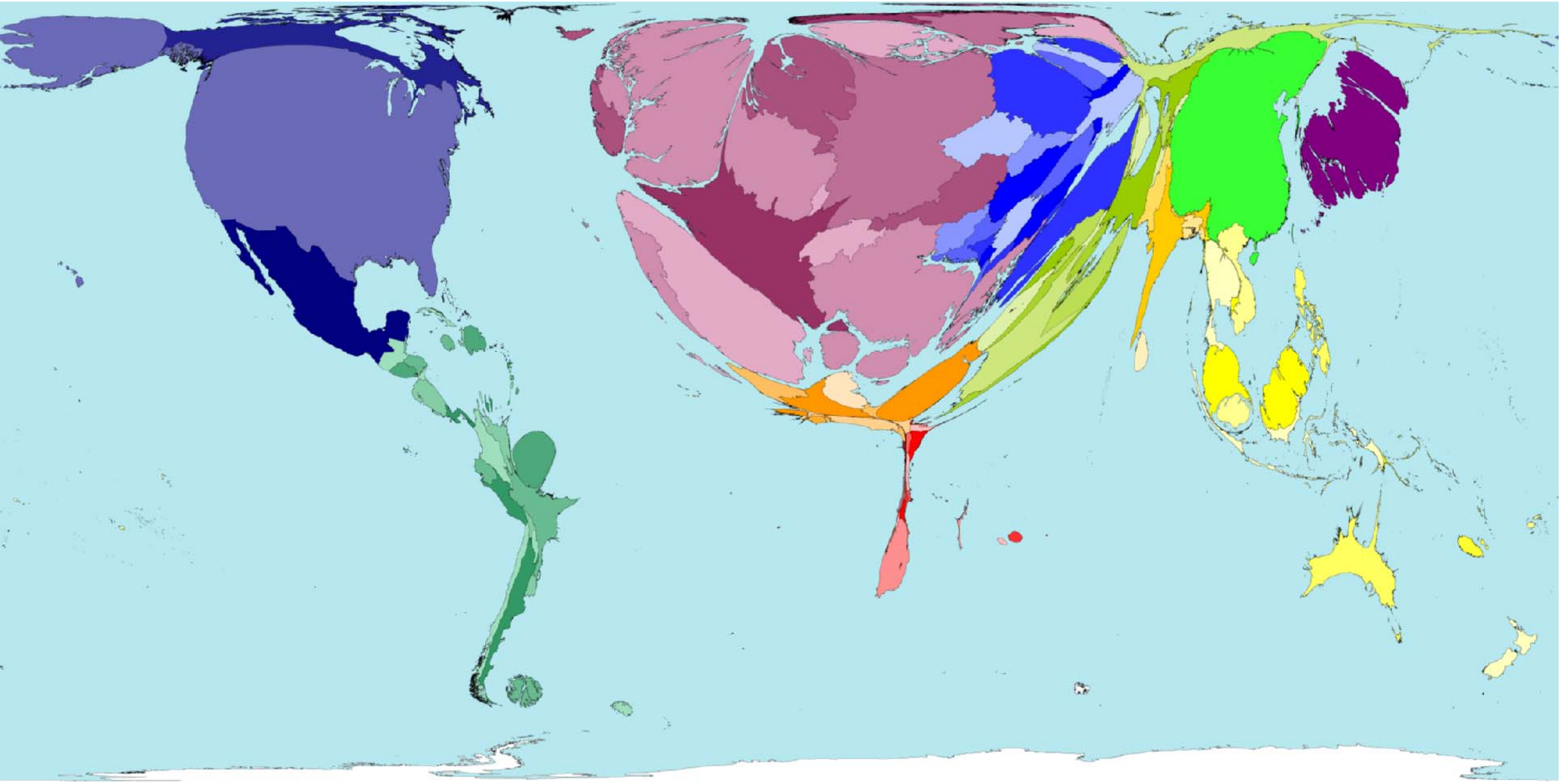
Source: Worldmapper

Forest Products Exports Map



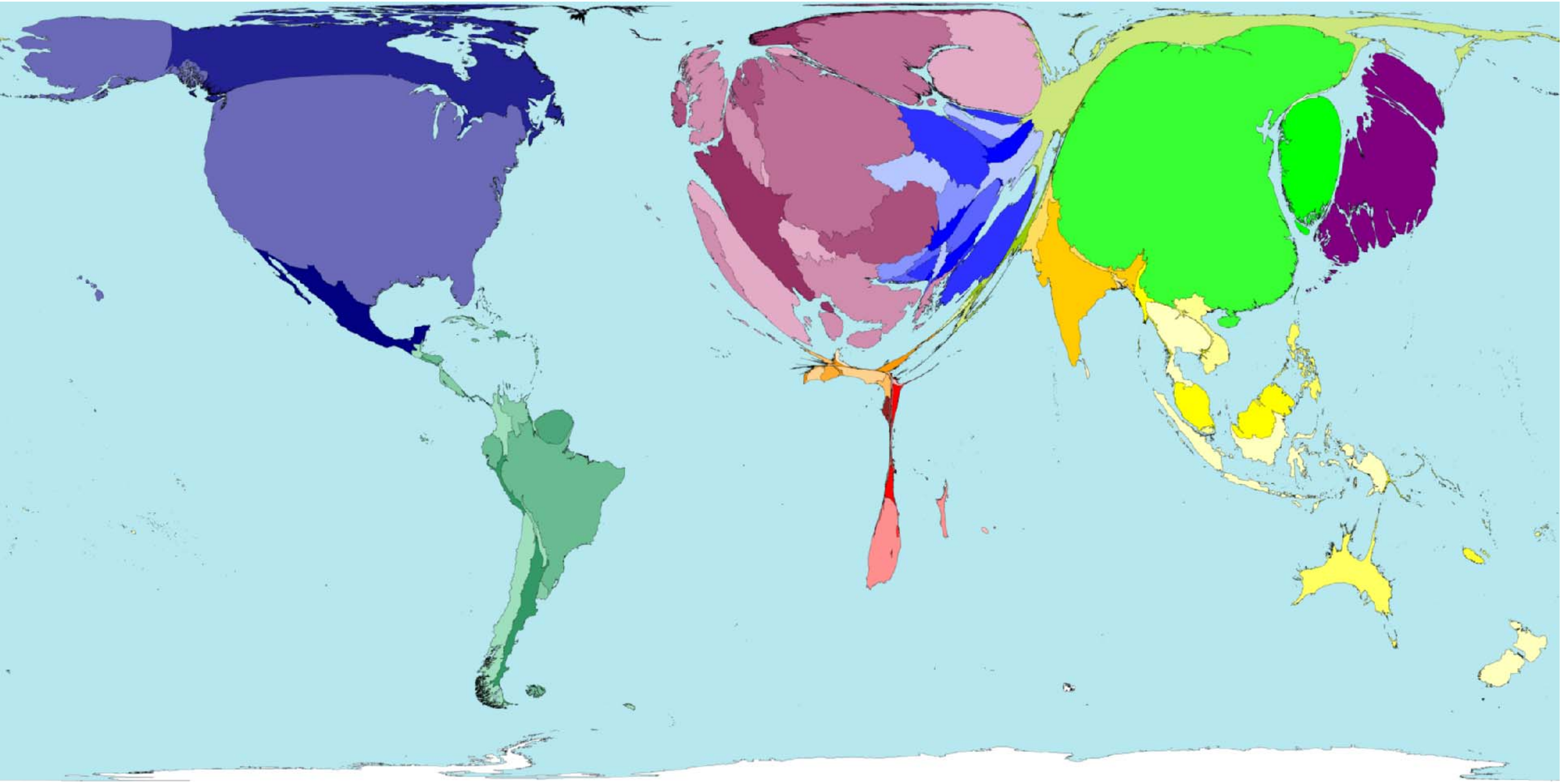
Source: Worldmapper

Forest Products Imports Map



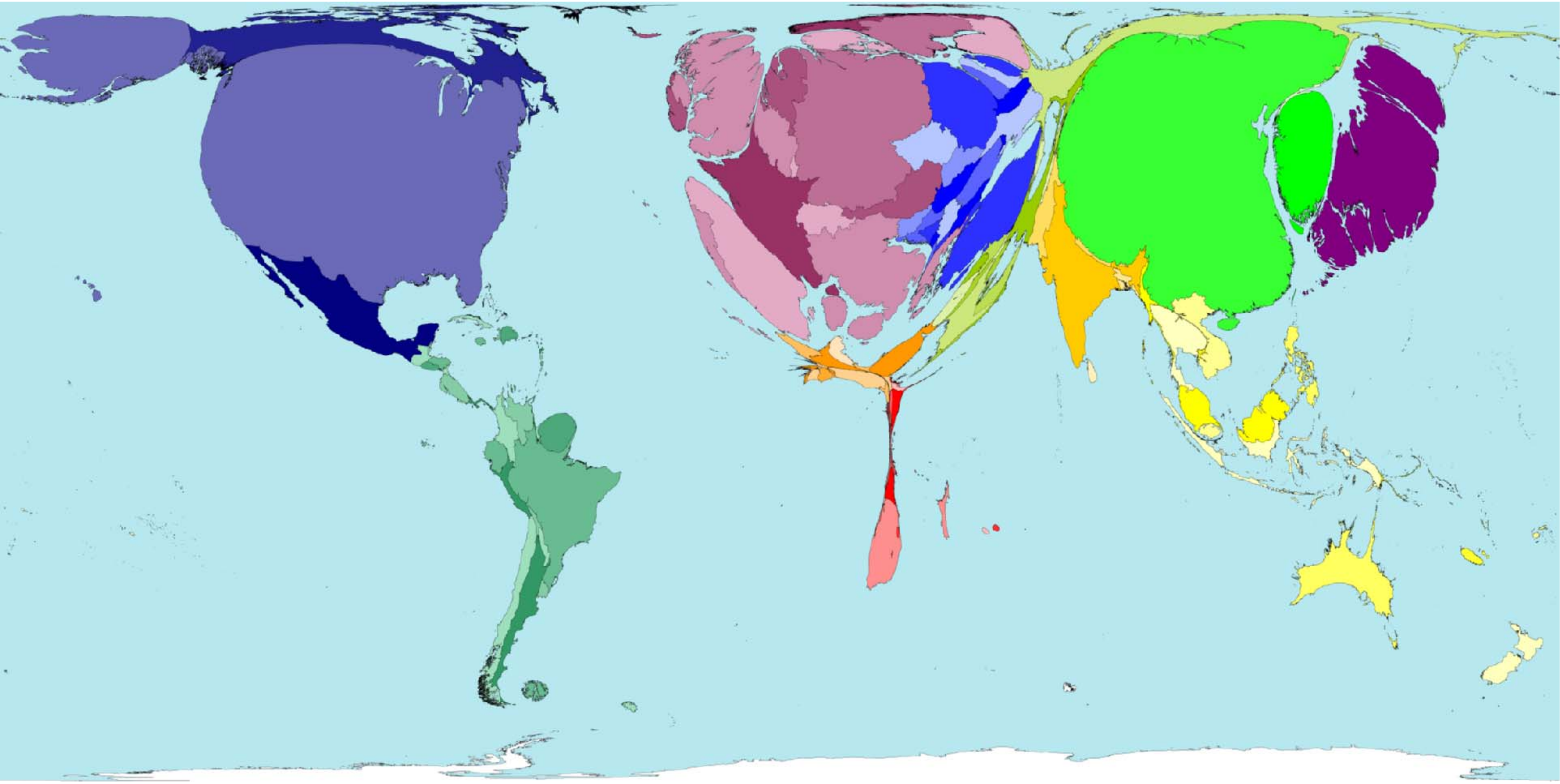
Source: Worldmapper

Forest Products Production Map



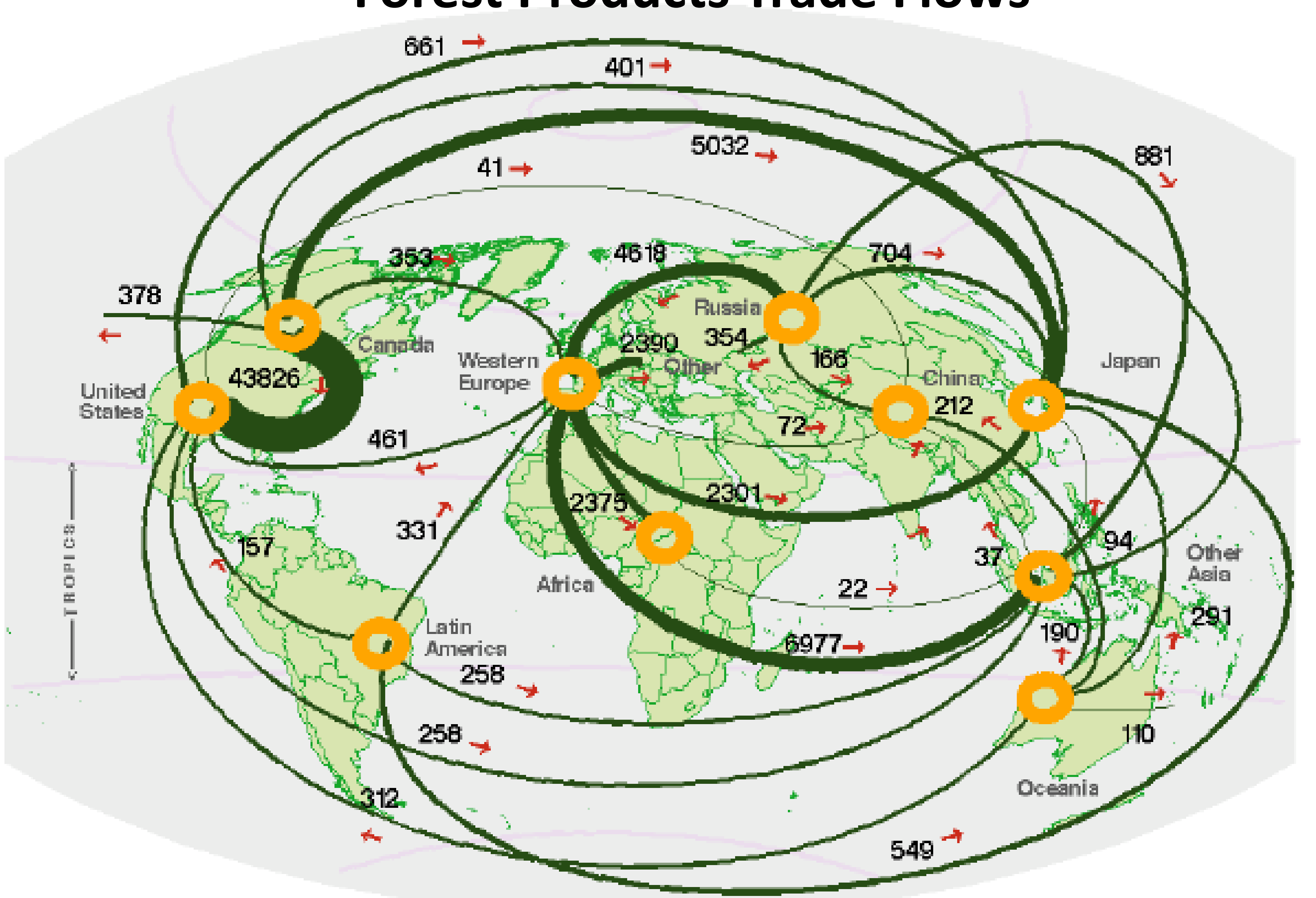
Source: Worldmapper

Forest Products Consumption Map



Source: Worldmapper

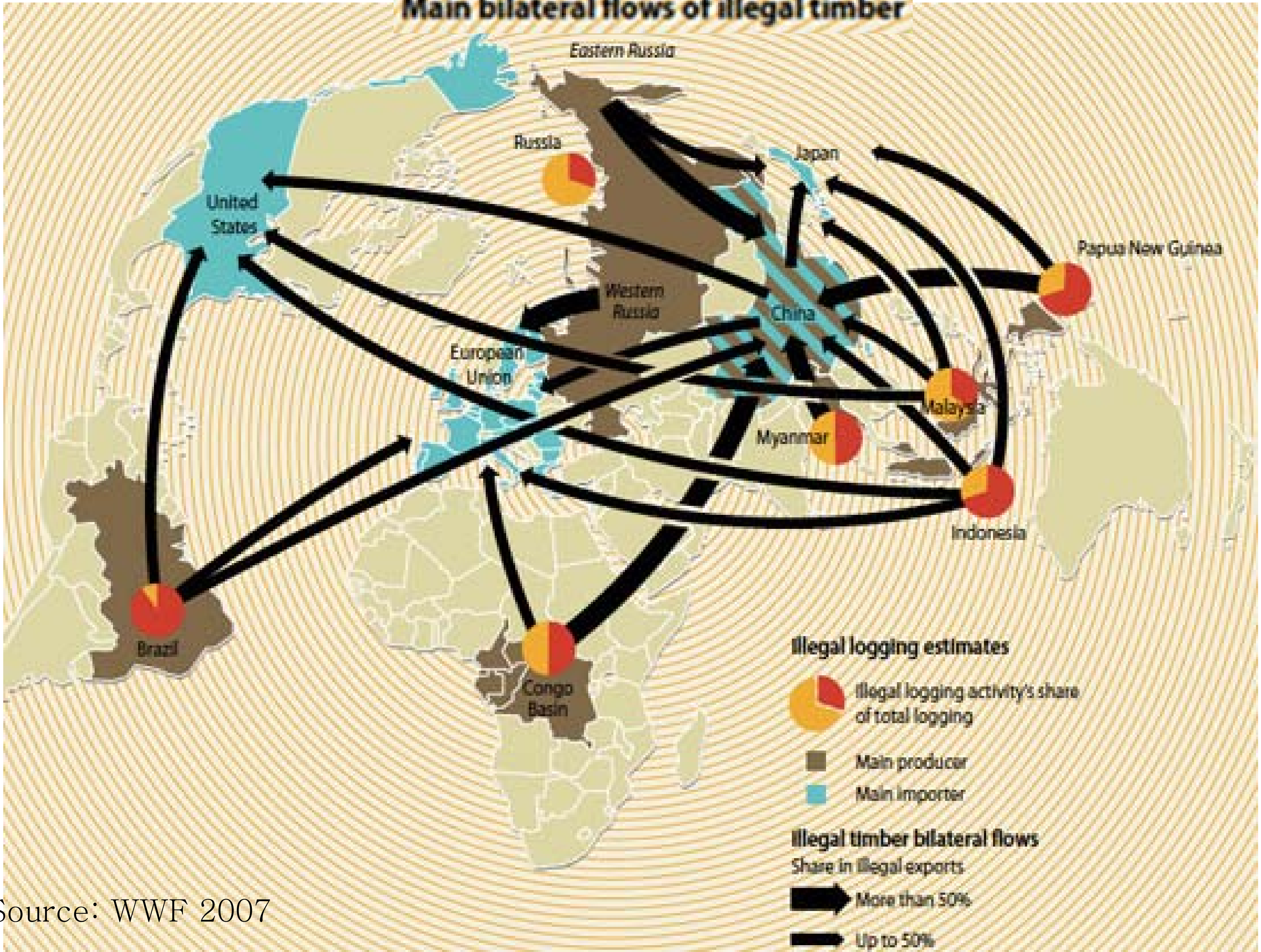
Forest Products Trade Flows



Source: FAO

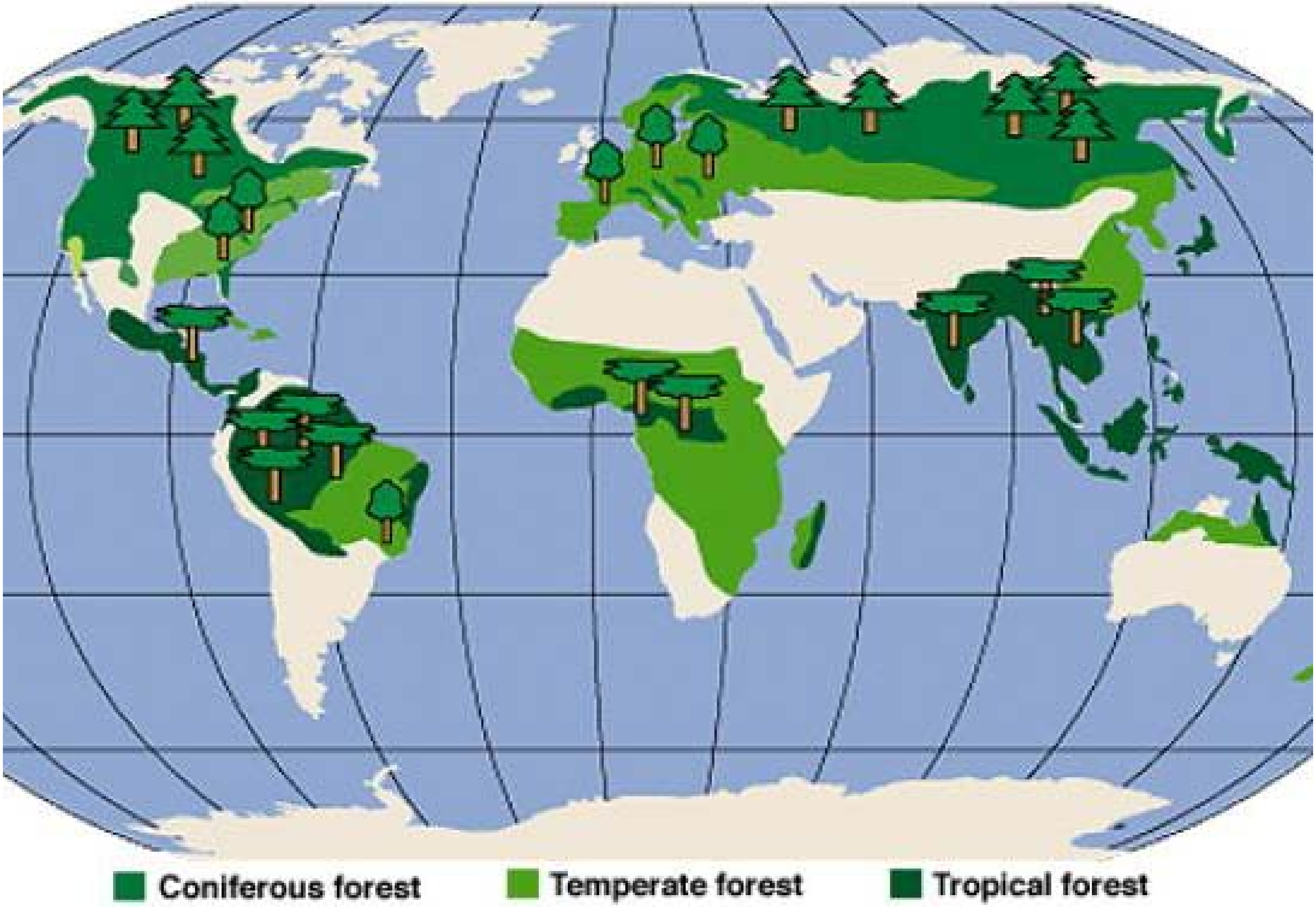
Black wood dependency

Main bilateral flows of illegal timber

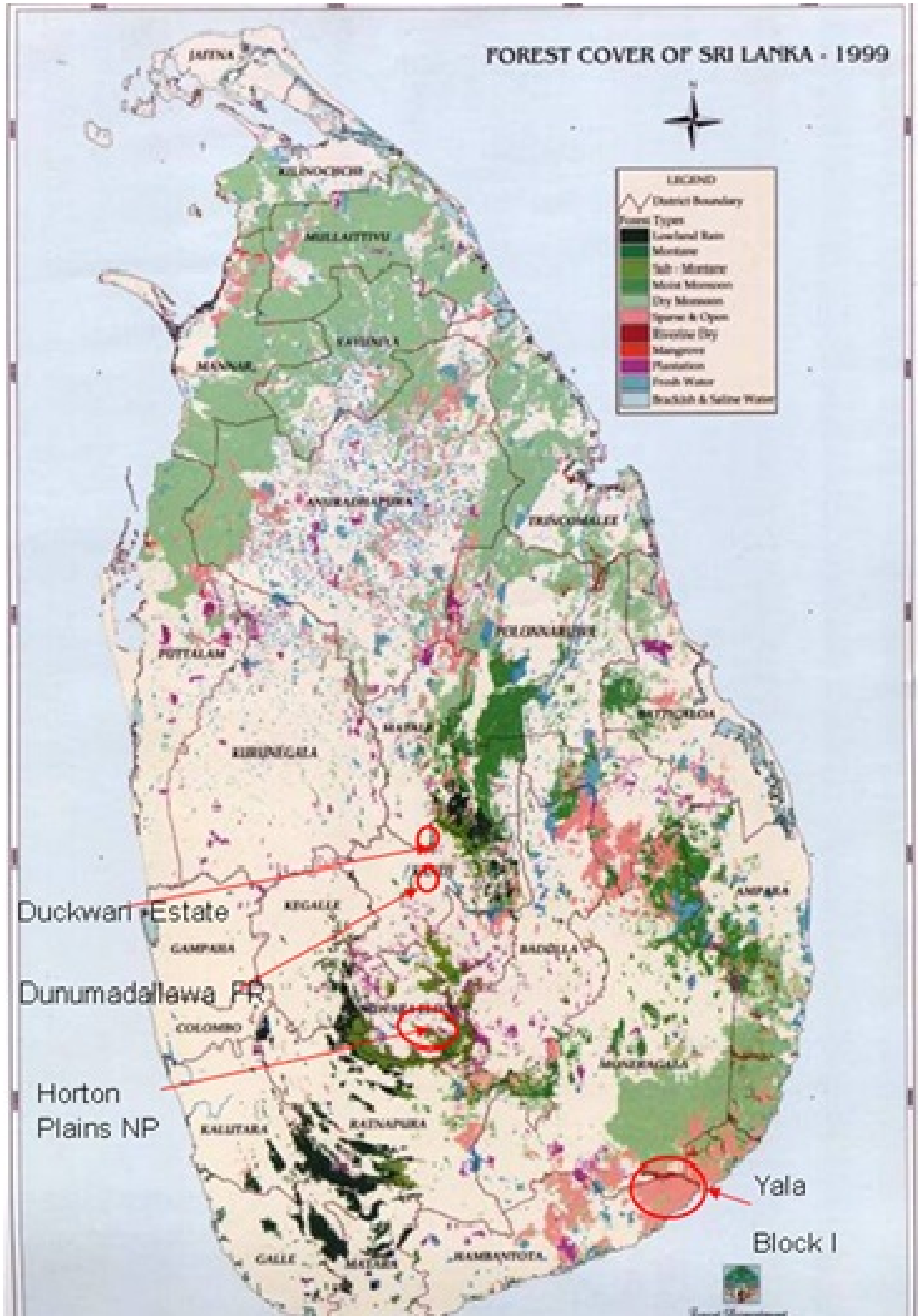


Source: WWF 2007

Forests of the World



Tropical Rain Forests of the World


FOREST COVER OF SRI LANKA - 1999
LEGEND
District Boundary
Forest Types
Lowland Rain
Montane
Sub - Montane
Moist Monsoon
Dry Monsoon
Sparse & Open
Riverine Dry
Mangrove
Plantation
Fresh Water
Brackish & Saline Water
JAFFNA
KILINOCHCHI
MULLAITIVU
VAVUNIYA
MANNAR
ANURADHAPURA
TRINCOMALEE
POLONNARUWA
PUTTALAM
BATTICALOA
MATALE
KURUNEGALA
AMPARA
KEGALLE
BADULLA
GAMPAHA
COLOMBO
MONERAGALA
KALUTARA
RATNAPURA
GALLE
MATARA
HAMBANTOTA
Duckwari Estate
Dunumadallawa_FR
Horton Plains NP
Yala
Block I

Current Issues & Considerations

- Forest products market and policy developments
- Certification and certified forest products markets
- Sustainable and legal wood trading policies
- Corporate social responsibility today
- Green building influence on the forest sector

Current Issues & Considerations

- Economic situation
- Wood raw material markets and forecasts
- Wood energy markets and policies
- Carbon markets
- Sawn hardwood markets and forecasts
- Tropical timber markets
- Sawn softwood markets and forecasts
- Panel markets and forecasts
- Paper and pulp markets and forecasts
- China’s forest products markets

Highlights

UNECE/FAO Forest Products Annual Market Review, 2010-2011

- All the major EU importing countries reported reduced tropical sawnwood imports for 2009, which were expected to remain at similar low levels in 2010.

- Modified wood products, such as heat-treated softwoods and temperate hardwoods, are being marketed as alternatives to tropical hardwoods in the external joinery and furniture sectors in EU markets and present strong competition in these sectors.

- Implementation of the (Illegal) Timber Regulation by the EU, is expected to push demand for certified tropical wood products during 2011-2012 but there are doubts that supplies will be adequate to satisfy demand.

- Tropical log production continued to decline in 2010, reflecting the continued depressed state of housing and construction markets in the EU and the US, tropical log availability, progress towards sustainable forest management in producer countries; and limited progress in achieving plantation targets designed to relieve pressure on natural forest.

13 Tropical timber trends, 2009-2011; Lead Author, Fran Maplesden

Highlights

UNECE/FAO Forest Products Annual Market Review, 2010-2011

- During the economic crisis, many African producers relaxed their log export restrictions to help improve the profitability of their forestry sectors (particularly Gabon, Cameroon and the Republic of Congo): by 2010, many countries had re-imposed log export restrictions to help recovery of their sawmilling and other wood processing industries.
- China and India continued to dominate tropical log imports in 2009 and 2010, with China's imports returning to pre-crisis levels in 2010 following a recovery in China's housing sector as well as a recovery in export demand for China's secondary processed wood products.
- In contrast to all other major tropical log importers, India's log imports grew throughout the economic downturn, as demand was stimulated by high economic growth and incentives for the building industry.

13 Tropical timber trends, 2009-2011; Lead Author, Fran Maplesden

Highlights

UNECE/FAO Forest Products Annual Market Review, 2010-2011

- China overtook Thailand as the major tropical sawnwood importer in 2009, with China's domestic demand more than compensating for the depressed demand in China's export-oriented wood remanufacturing industries during the period of the global financial and economic crisis (2008-2009): imports were expected to soar in 2010, as a result of a significant recovery in wooden furniture and flooring export markets.
- Prices among the important traded species of tropical primary wood products displayed relative price stability in 2009 and 2010, increasing from mid-2010 onwards.
- The aftermath of the devastating earthquake and tsunami in Japan in 2011 is expected to result in increased spending on reconstruction, leading to a surge in demand for building materials, including tropical wood products.

13 Tropical timber trends, 2009-2011; Lead Author, Fran Maplesden

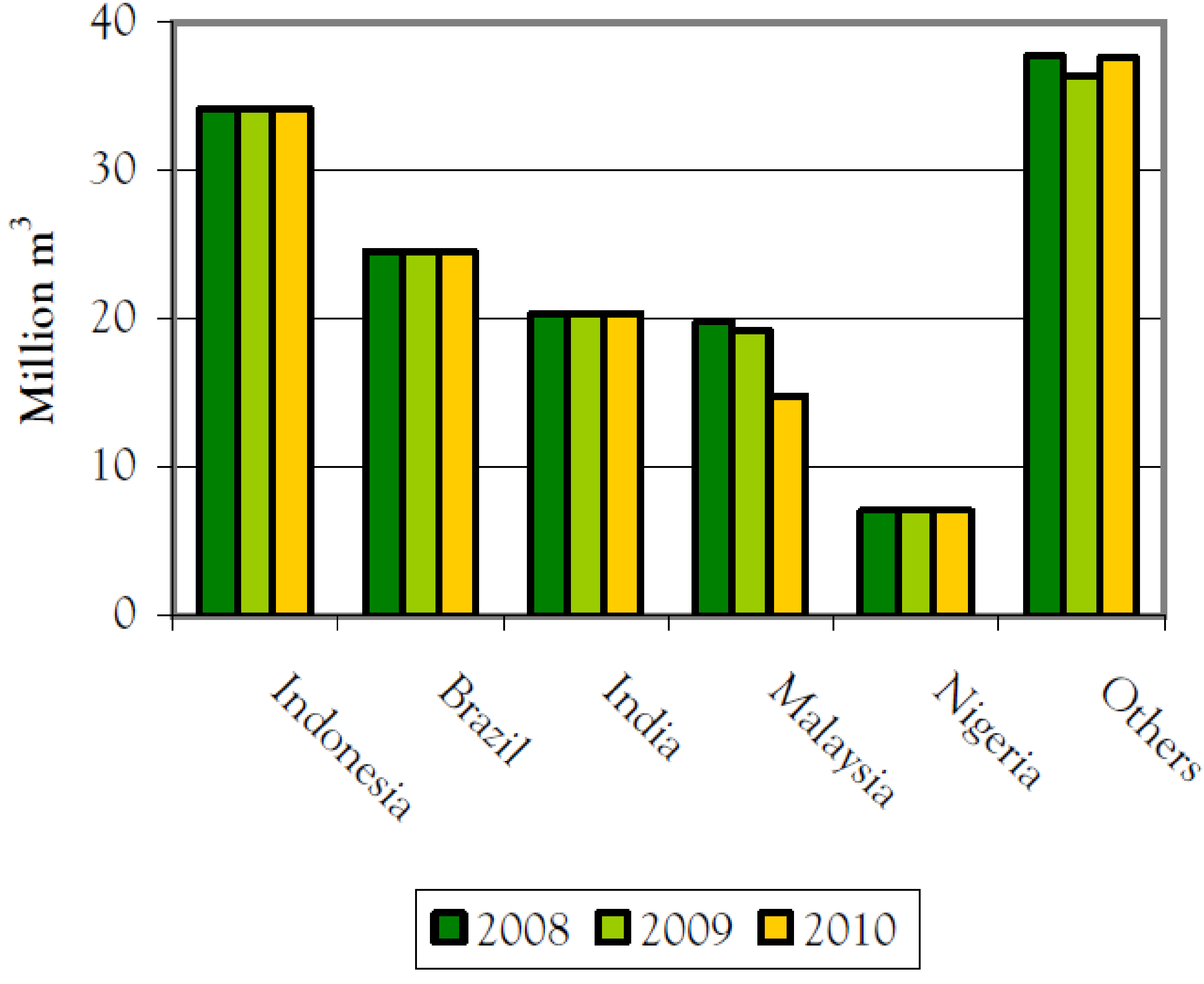
Production and trade of primary tropical timber products, ITTO total, 2007-2010[28]

(million m^3)

	2007	*2008*	*2009*	*2010*	*Change % 2009-2010*
Logs					
Production	141.8	145.6	141.7	138.4	-2.3
Imports	15.3	13.2	11.5	13.6	+18.3
Exports	13.6	12.9	10.9	12.0	+10.1
Sawnwood					
Production	43.4	43.5	42.4	43.2	+1.9
Imports	8.8	8.1	6.6	8.3	+25.8
Exports	11.0	8.9	8.0	9.1	+13.8
Plywood					
Production	20.0	17.8	18.2	18.3	+0.5
Imports	8.1	6.5	5.4	5.1	-5.6
Exports	8.9	7.3	5.3	5.2	-1.9

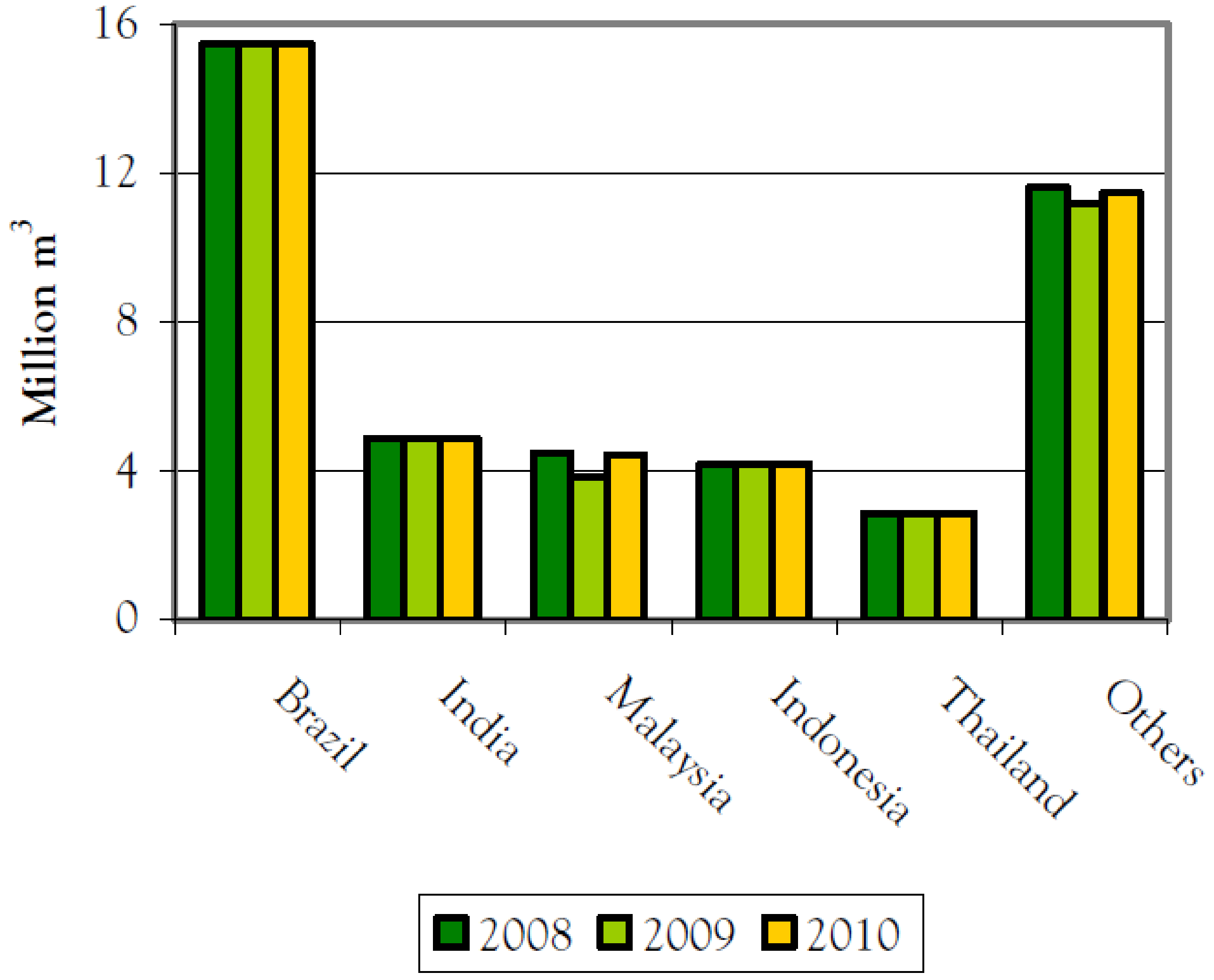
Notes: Total of producer and consumer countries. ITTO categorizes its 60 member countries into 33 producers and 27 consumers (non-tropical) which together constitute 95% of all tropical timber trade and over 80% of tropical forest area. A full list of members is available at *www.itto.int*.

Major tropical log producers, 2008-2010



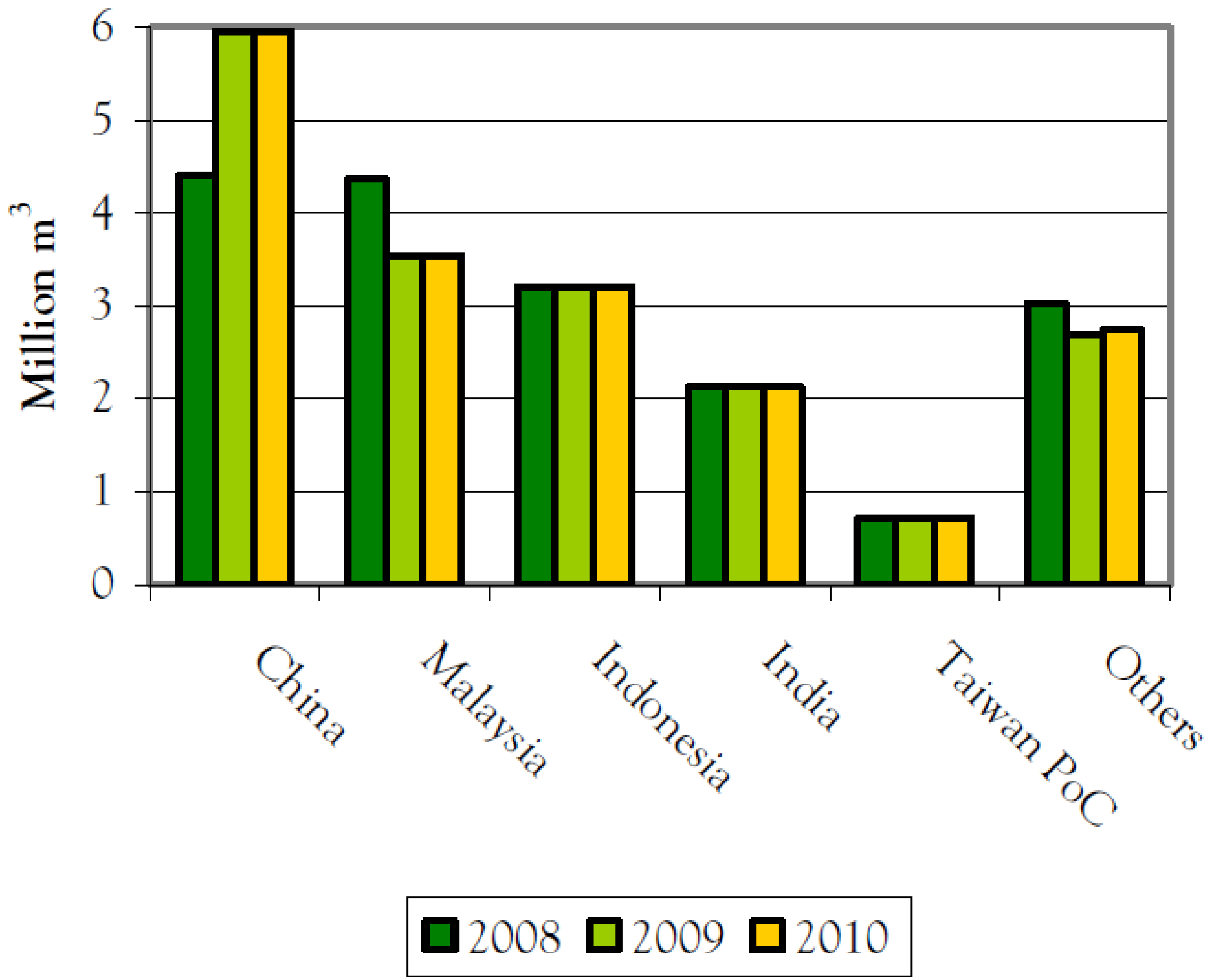
Source: ITTO, 2011.

Major tropical sawnwood producers, 2008-2010



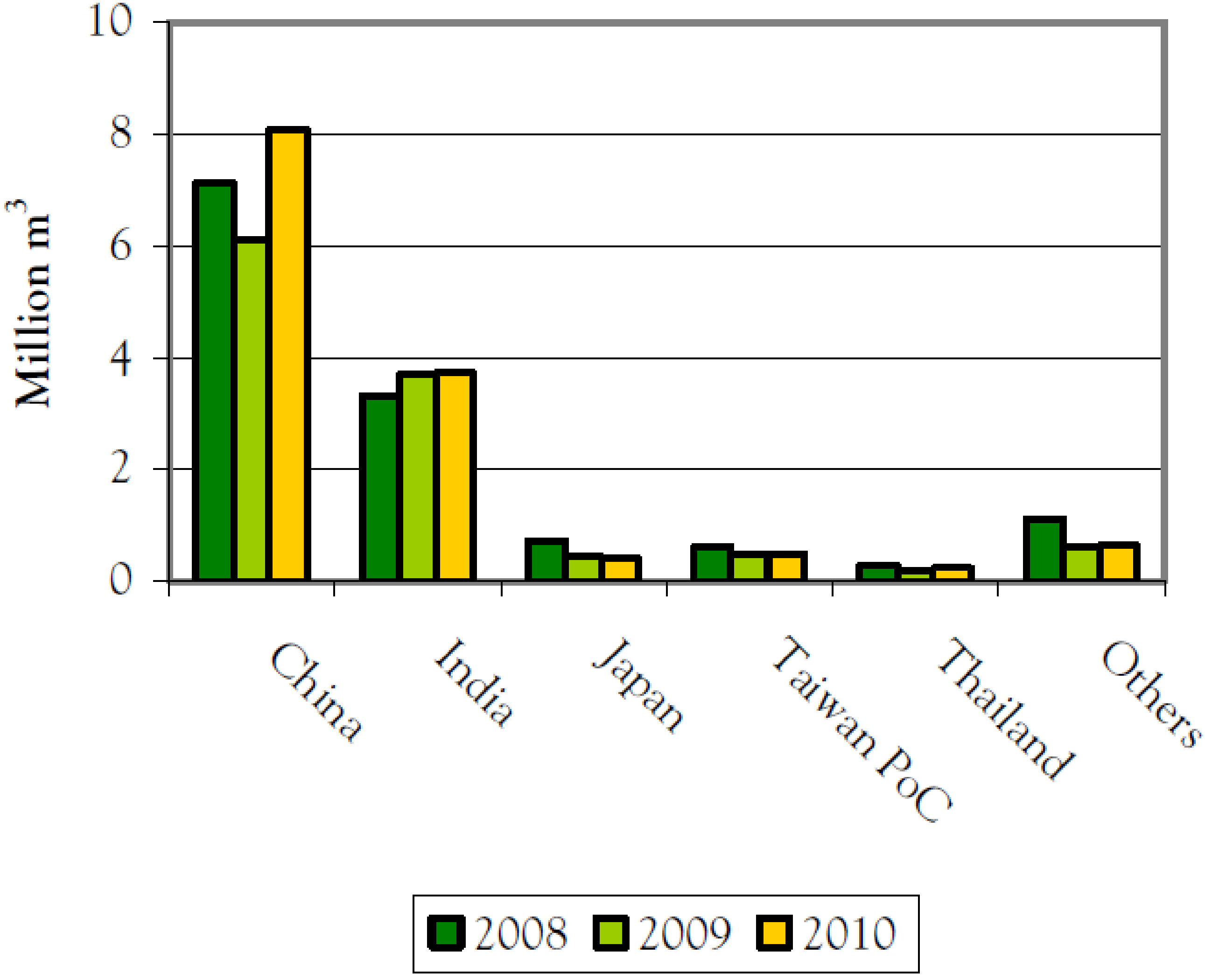
Source: ITTO, 2011.

Tropical plywood production from major manufacturing countries, 2008-2010



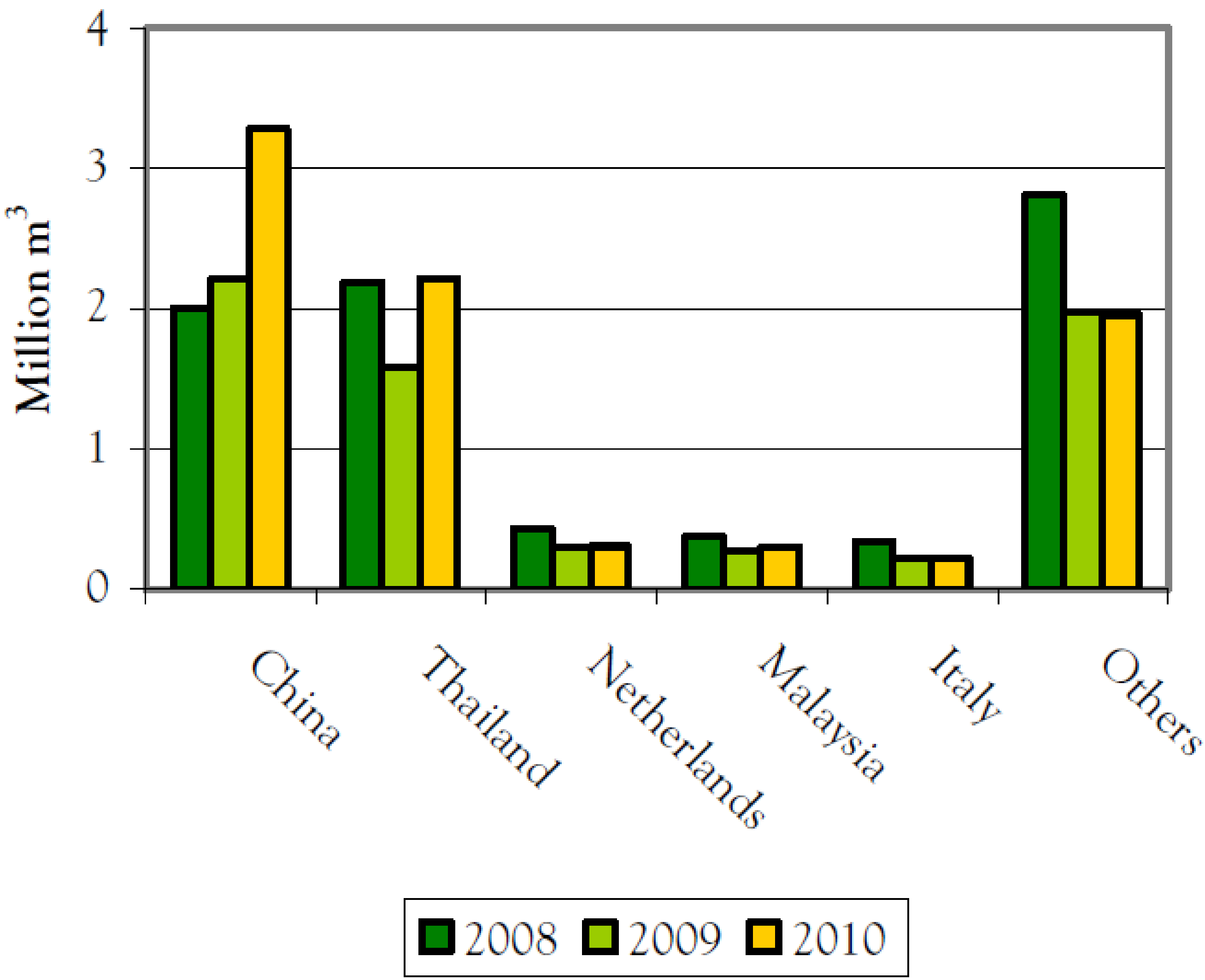
Source: ITTO, 2011.

Major tropical log importers, 2008-2010



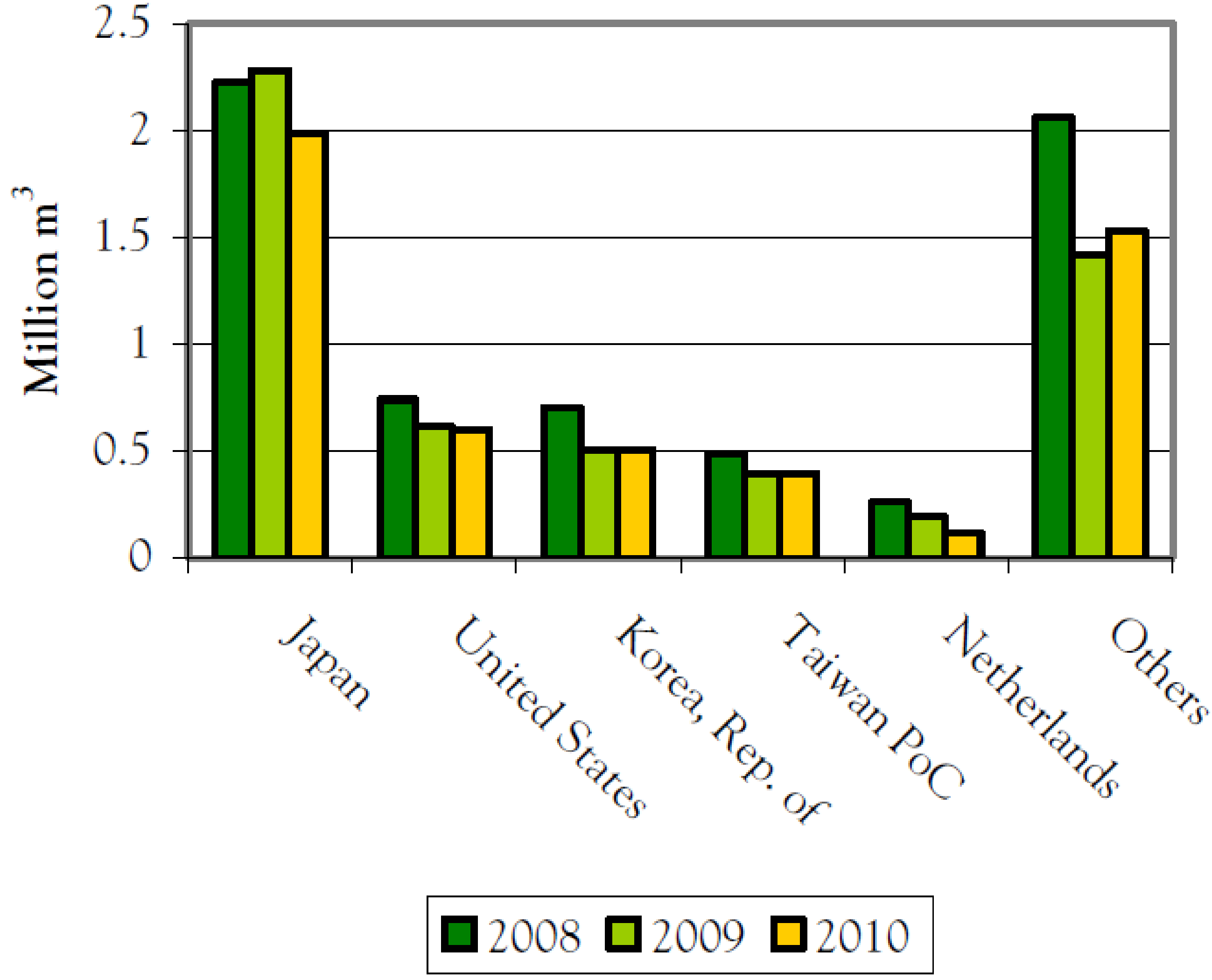
Source: ITTO, 2011.

Major tropical sawnwood importers, 2008-2010



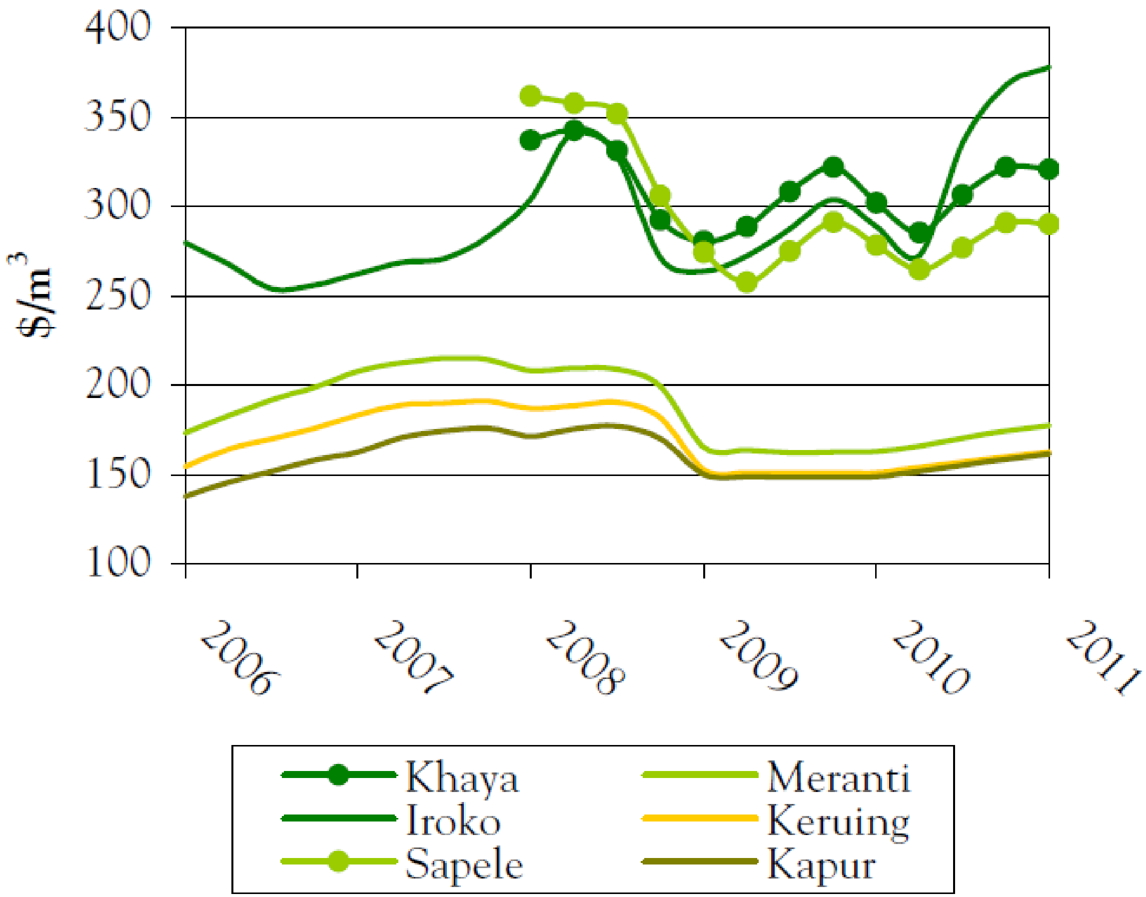
Source: ITTO, 2011.

Major tropical plywood importers, 2008-2010



Source: ITTO, 2011.

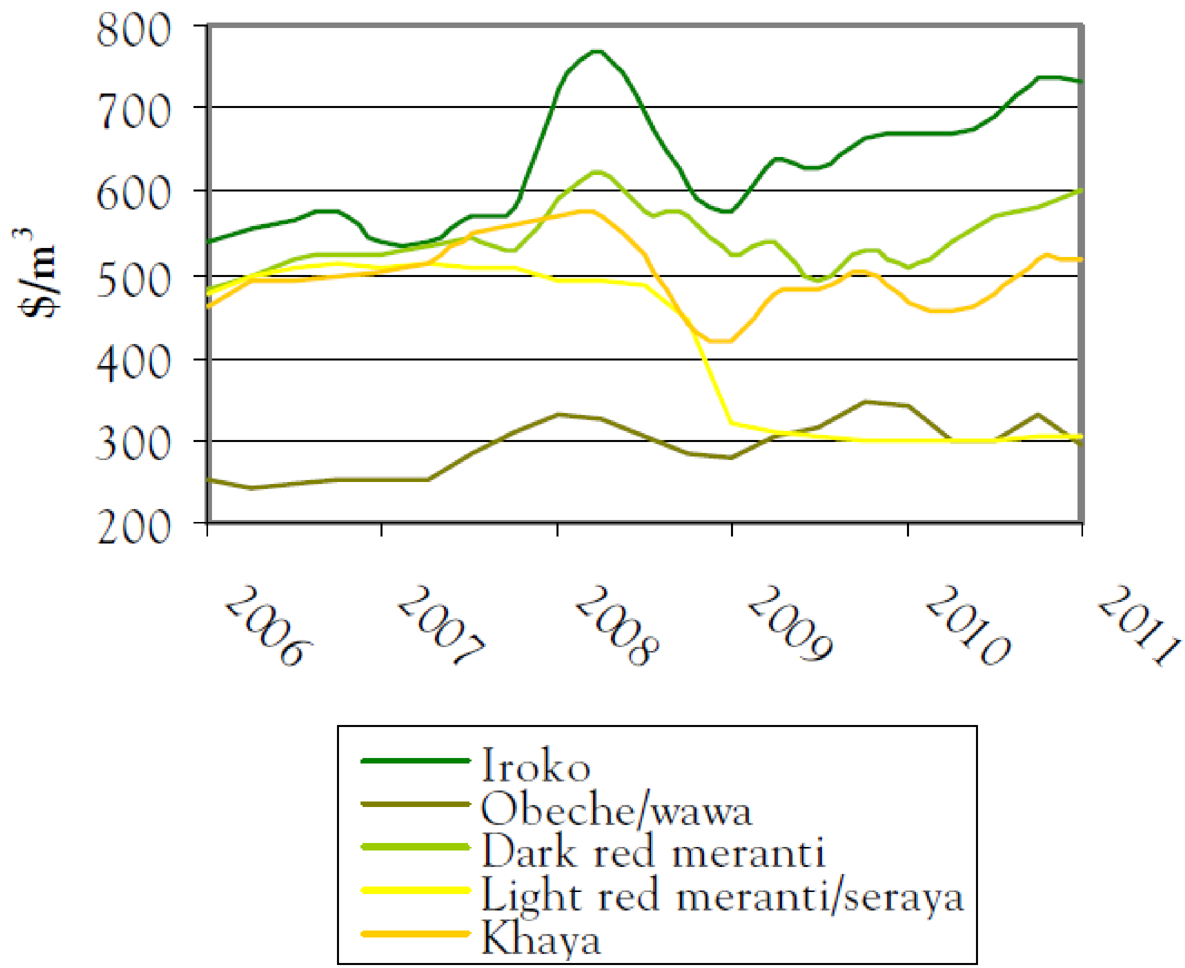
Tropical log price trends, 2006-2011



Notes: Prices in constant 1990 $ per cubic metre (deflated by the IMF Consumer Price Index for industrial countries). Data series for sapele and African mahogany are only available from January 2008.

Source: ITTO Market Information Service, 2006-2011.

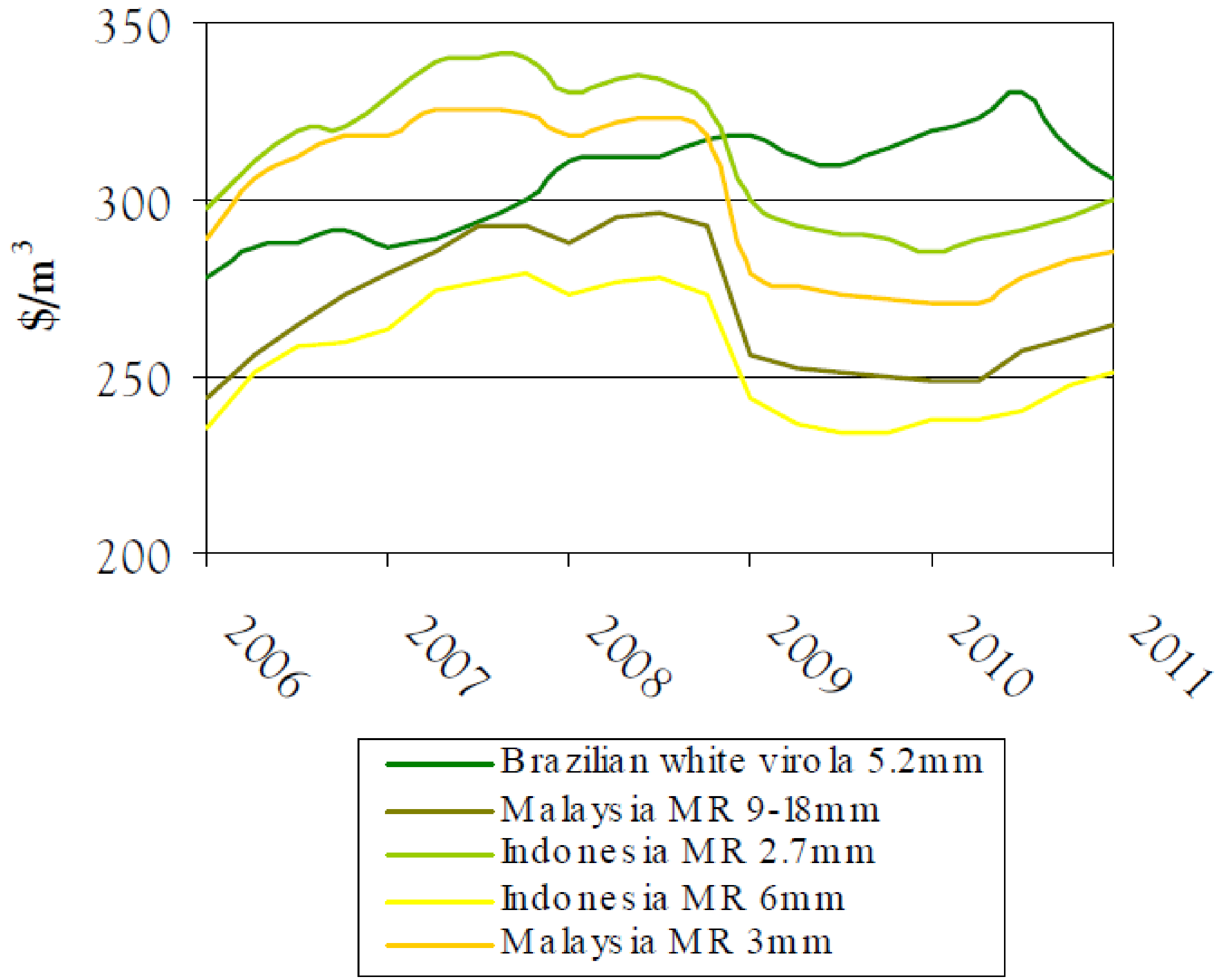
Tropical sawnwood price trends, 2006-2011



Note: Prices in constant 1990 $ per cubic meter (deflated by the IMF Consumer Price Index for industrial countries).

Source: ITTO Market Information Service, 2006-2011.

Tropical plywood price trends, 2006-2011



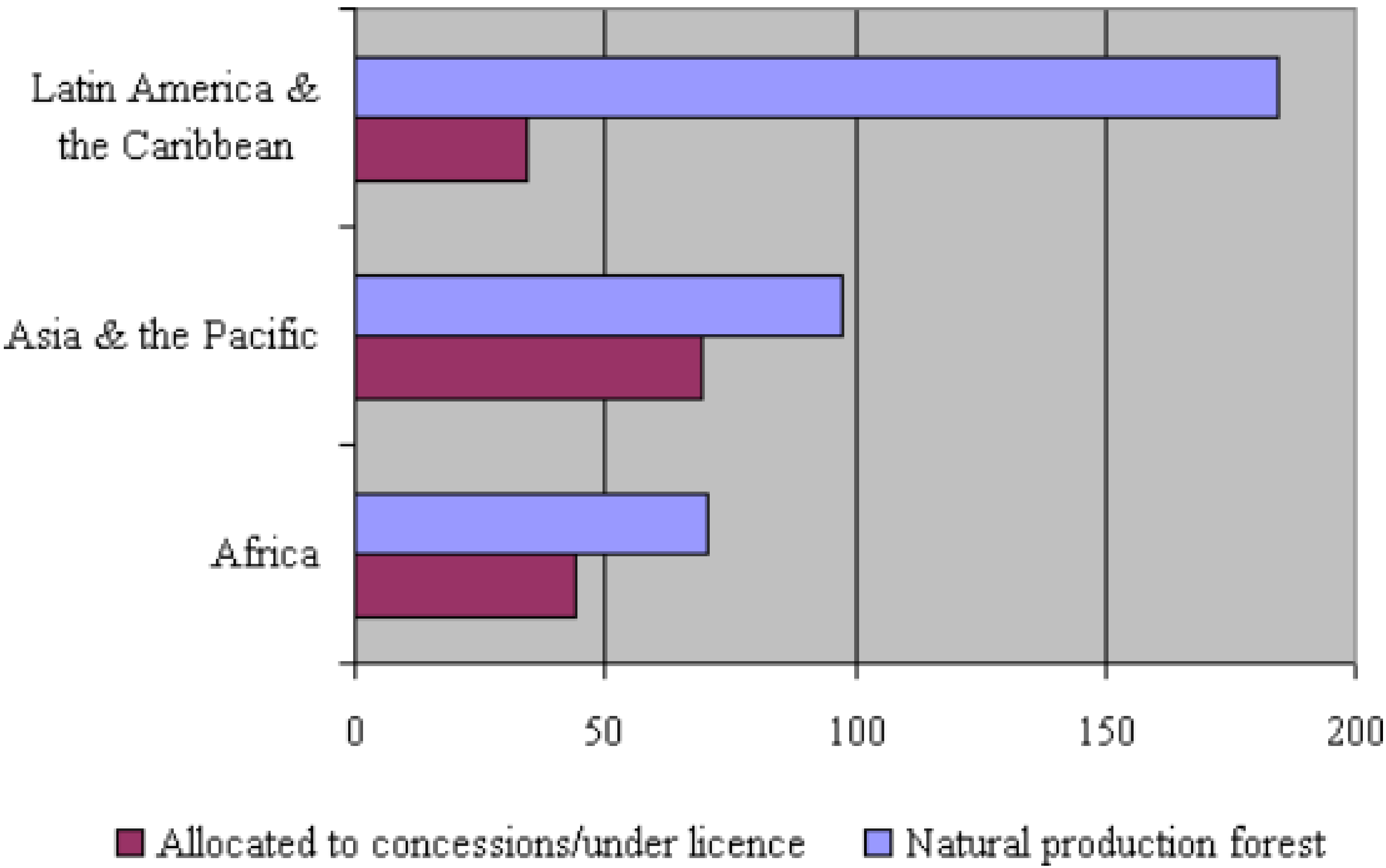
Note: Prices in constant 1990 US dollars per cubic meter, FOB (deflated by the IMF Consumer Price Index for industrial countries).

Source: ITTO Market Information Service, 2006-2011.

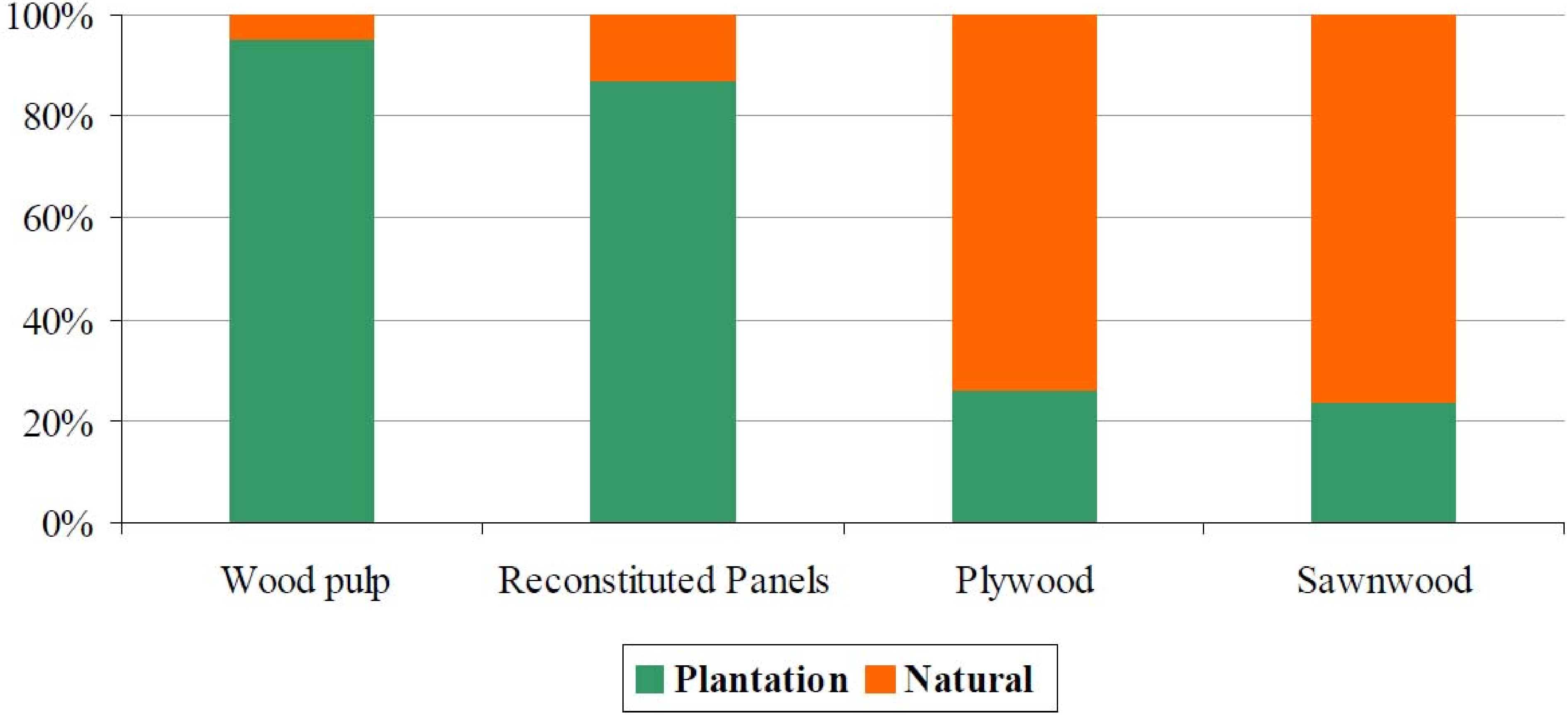
Land Tenure/Ownership

Asia-Pacific	
Cambodia	Forests are mostly owned by the State; local communities are allowed certain limited rights and privileges.
Fiji	Communal groups (*mataqali*) own 84 per cent of the forests; most of the remaining is owned privately.
India	All natural forest is owned by the State. Private agro-industrial plantations are becoming significant.
Indonesia	Nearly all natural forests are owned by the State. Traditional community rights (*adat*) are widely recognized.
Malaysia	90 per cent of natural forest and 69 per cent of planted forest are state-owned; the remainder is owned privately.
Myanmar	All forests are owned by the State.
Papua New Guinea	97 per cent of the land is held as communal or clan commons.
Philippines	The Government holds title to most forest land, but considerable portions are held by the private sector.
Thailand	All natural forests are owned by the State; trees established on private lands are private property.
Vanuatu	All lands are customarily owned.

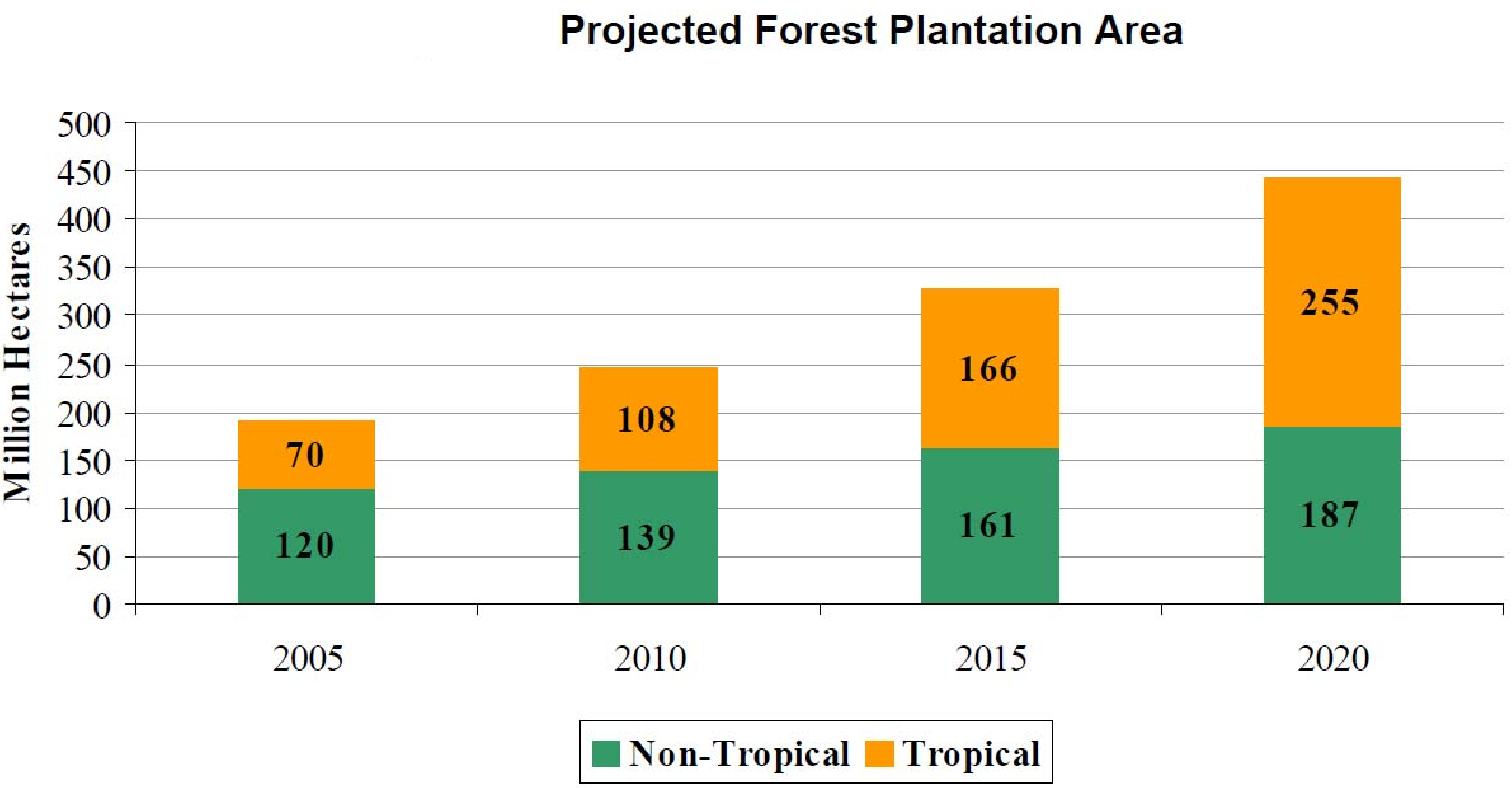
Natural production forest allocated to concessions or under licence (million ha) 2006



Share of Plantation Wood in the Tropical Forest Industry

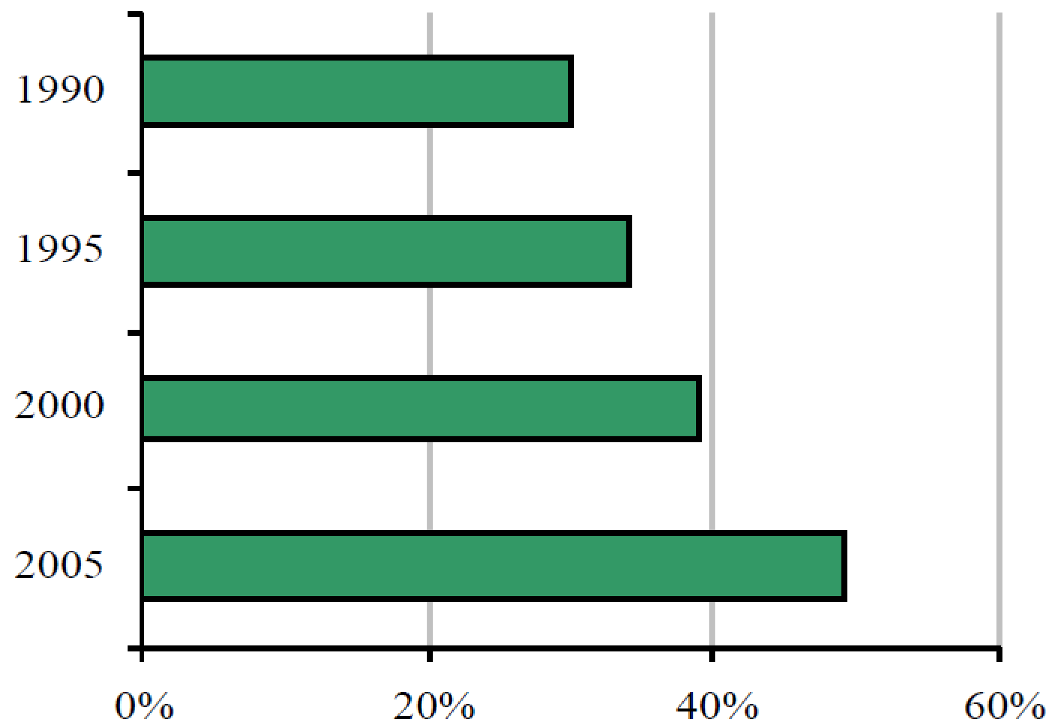


ITTO 2006



Source: STCP Estimates

Share of Eucalyptus in the International Trade of Short Fiber Wood Pulp



Source: Bracelpa 2007

Early last decade eucalyptus wood pulp had a share of around 30% and is now around 50%. Producers are projecting, based on the on going and announced investments that eucalyptus wood pulp will have around 60% of the total international short fibre pulp market by the year 2012 (Bracelpa, 2007).

An Overview of Sri Lanka Wood Product Exports

Rangika Perera
Ph.D. Graduate Research Assistant

Richard Vlosky
Professor and Director

Louisiana Forest Product Development Center
School of Renewable Natural Resources
Louisiana State University Agricultural Center

(Photos by Rich Vlosky)

Forest Products Society 63rd International Convention, 2009

LSU AgCenter Research & Extension

School of Renewable Natural Resources

Louisiana Forest Products Development Center

Introduction

- Rapid increase in global wood demand has intensified the need for cross-boundary trade of wood products.

- Design and quality of timber products is increasingly being associated as a means of maintaining or increasing imports/exports.

- In many nations:
  - earnings from wood product export significantly contributes to national economy.
  - wood product exports generate employment.

Sri Lanka wood product sector

- Sri Lanka's wood product manufacturing sector is characterized by low volume producers, inefficient production, and quality products.

- The wood-based manufacturing sector consists of a variety of industries including:
  - lumber, furniture, parquet flooring, wood-based panel products and carvings/crafts.

- The sector depends almost entirely on local wood supply for raw materials.

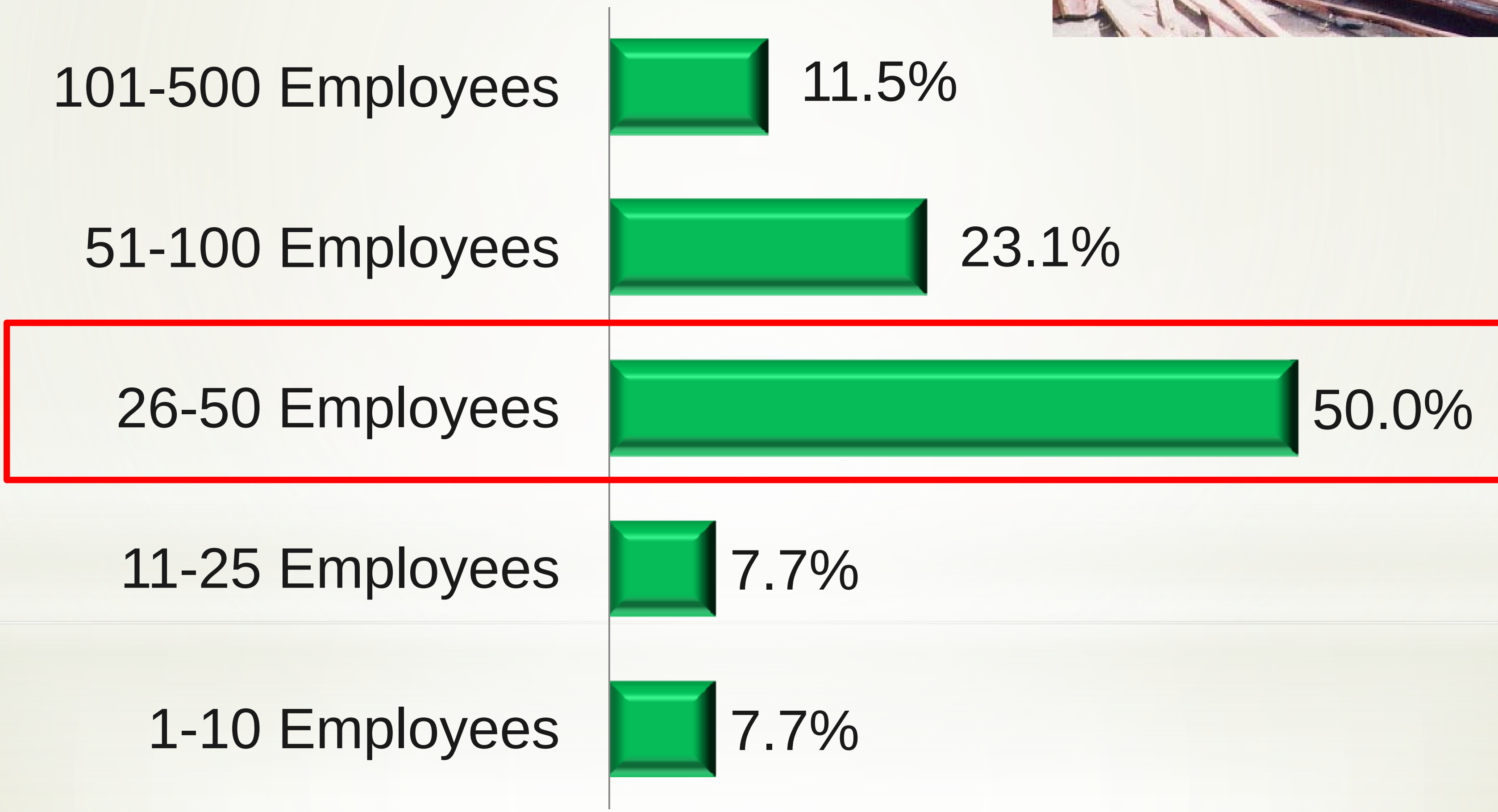
Sri Lanka wood product sector

- There are over 9,000 furniture, lumber and other woodworking manufacturers in Sri Lanka with an estimated employment of 28,000.
- These firms predominantly supply their products to the domestic market.
- 100 manufacturers target export markets.

Sri Lanka wood product exporters

Number of employees

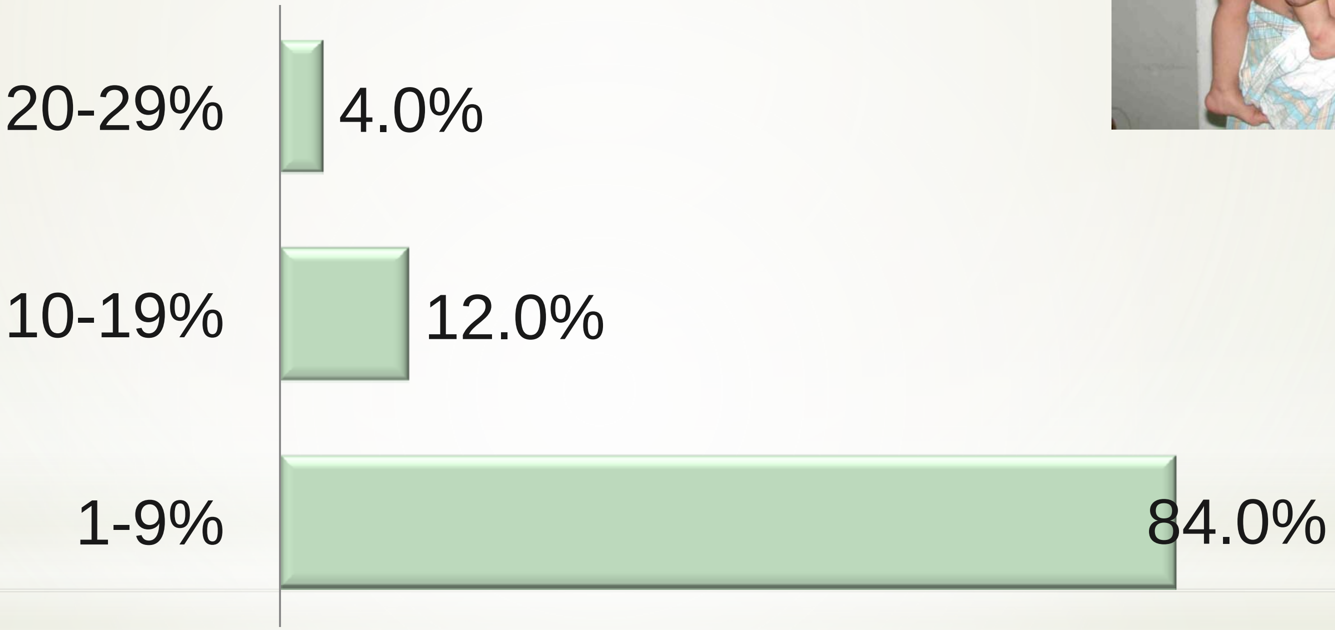
Percent of respondents (n= 26)



Sri Lanka wood product exporters

Percent of sales from exports in 2006

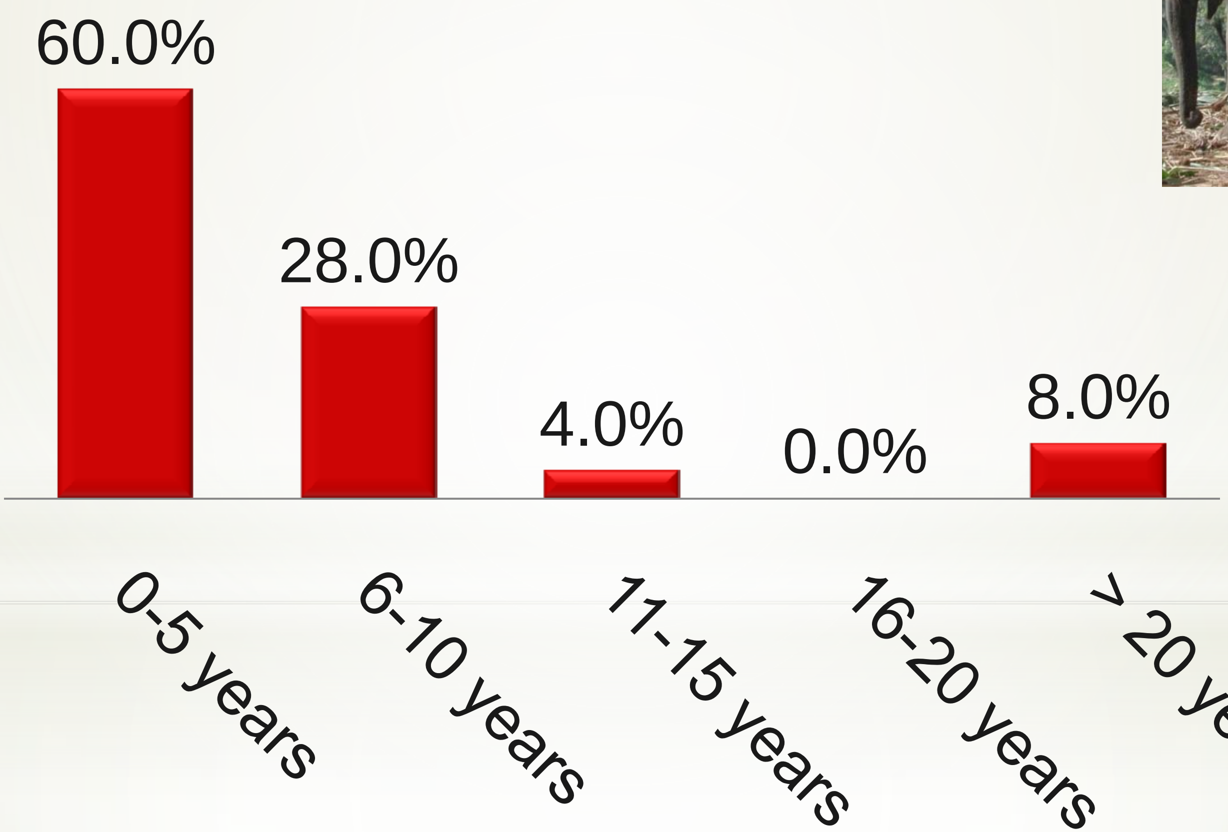
Percent of respondents (n= 26)



Sri Lanka wood product exporters

Company experience with exporting-number of years

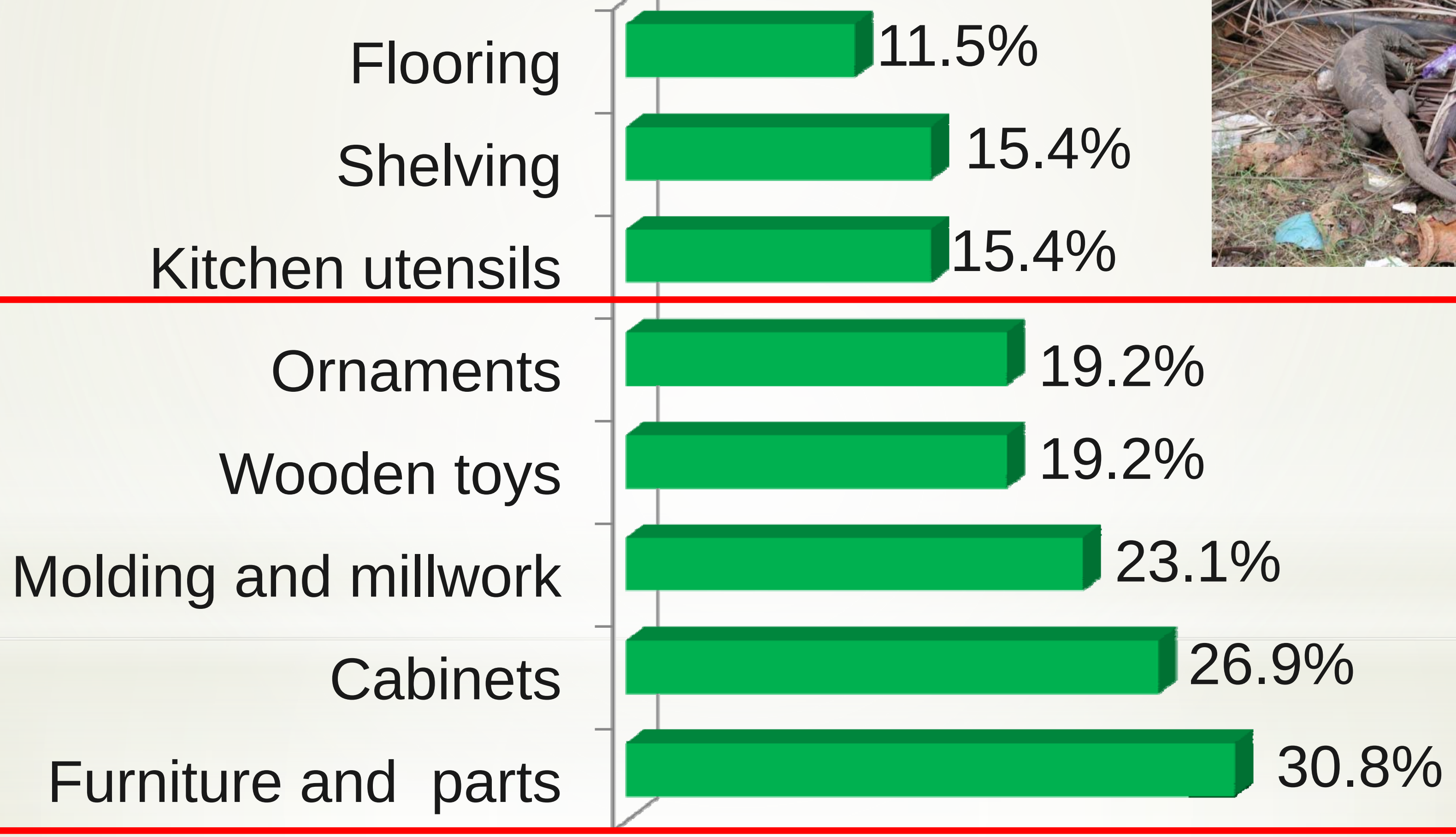
percent of respondents (n= 26)



Sri Lanka wood product exporters

Wood Products exported by respondents

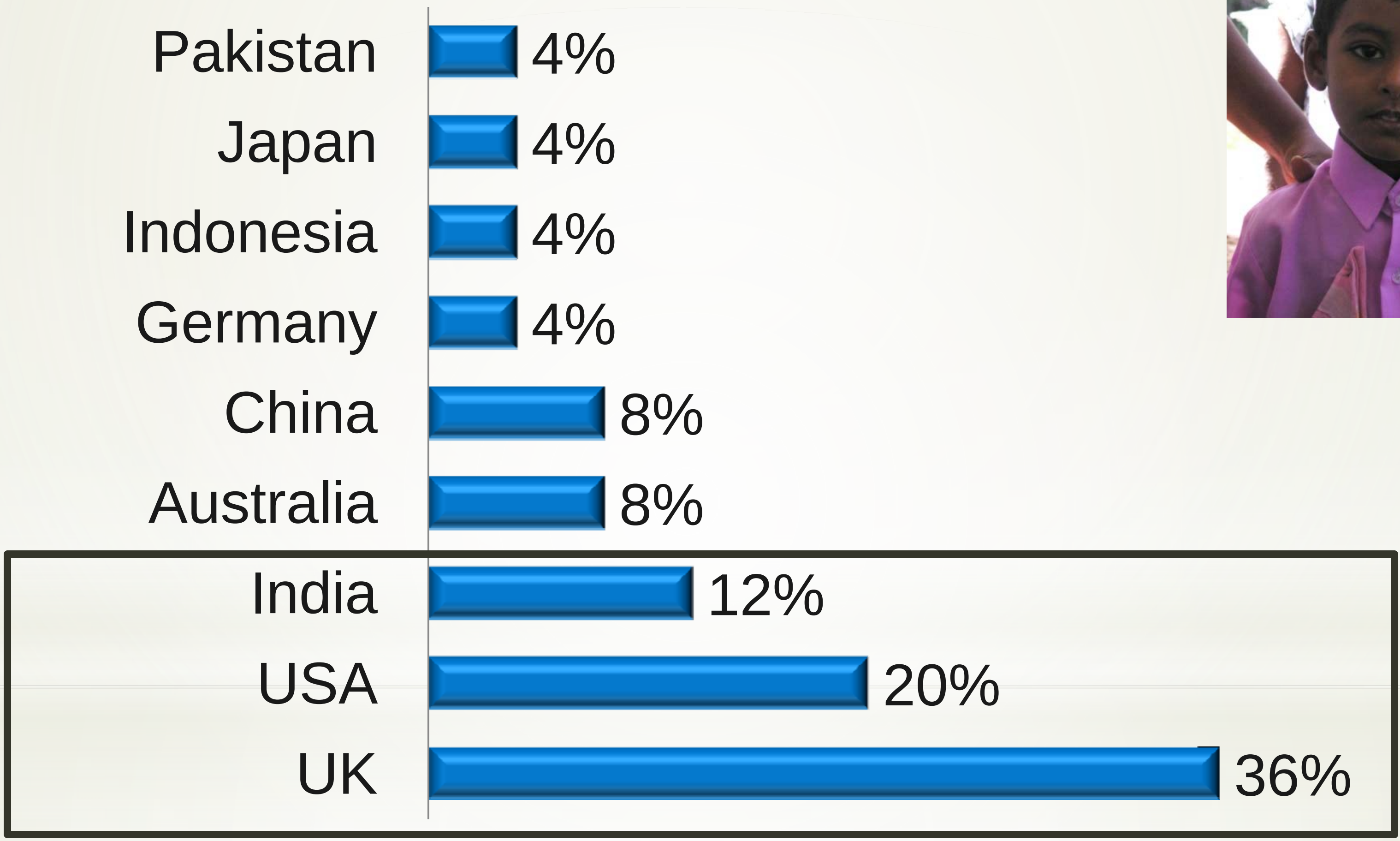
percent of respondents (n=26) (multiple responses possible)



Sri Lanka wood and wood product exporters

Importer partner countries

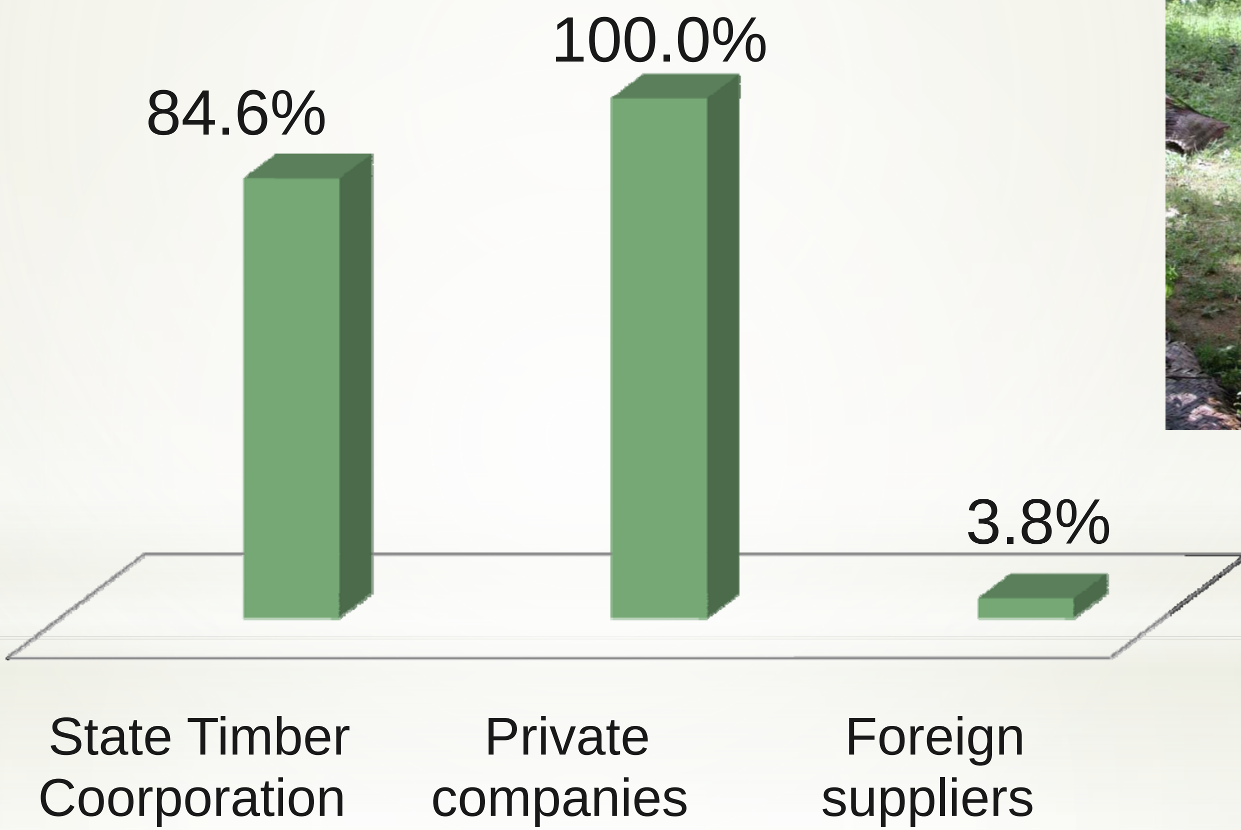
percent of respondents (n=26) (multiple responses possible)



Sri Lanka wood product exporters

Raw material sources

percent of respondents (n=26) (multiple responses possible)



Sri Lanka wood product exporters
Marketing efforts
percent of respondents (n=26)

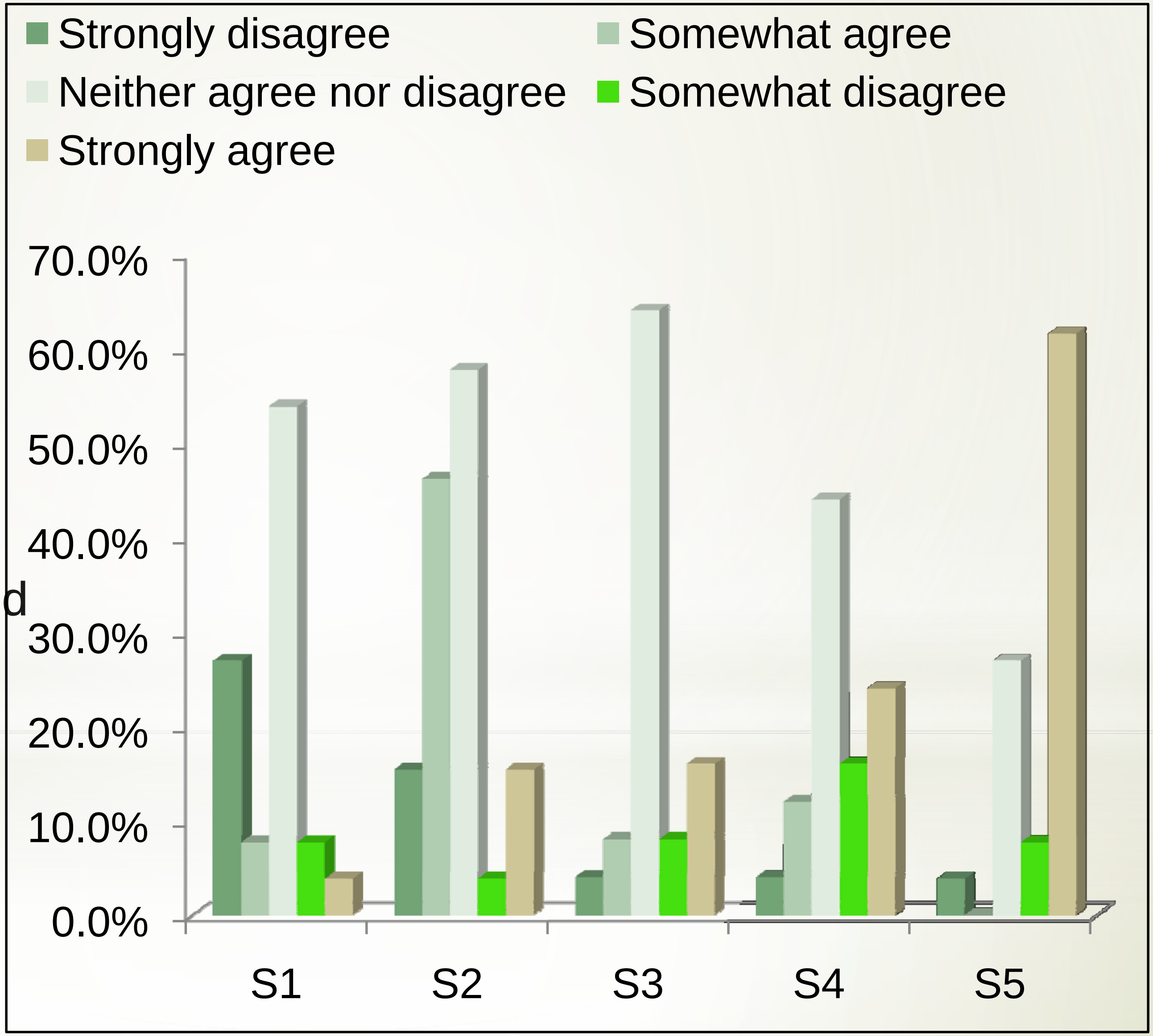
S1 - doing market research prior to introduction of their products

S2 - having a strategic plan for wood product exporting

S3 - understanding competitor strength and weaknesses

S4 - prepare a marketing plan

S5 - targeting specific markets



Sri Lanka wood product exporters (n=26)

Sources of market information

Means, Scale: 1=not important at all; 2=somewhat important; 3=very important

Sri Lanka wood product exporters

Export limitations

Means, Scale: 1= Strongly disagree; 3= Neither agree nor disagree; 5= Strongly agree

Policies

Buyer Specification

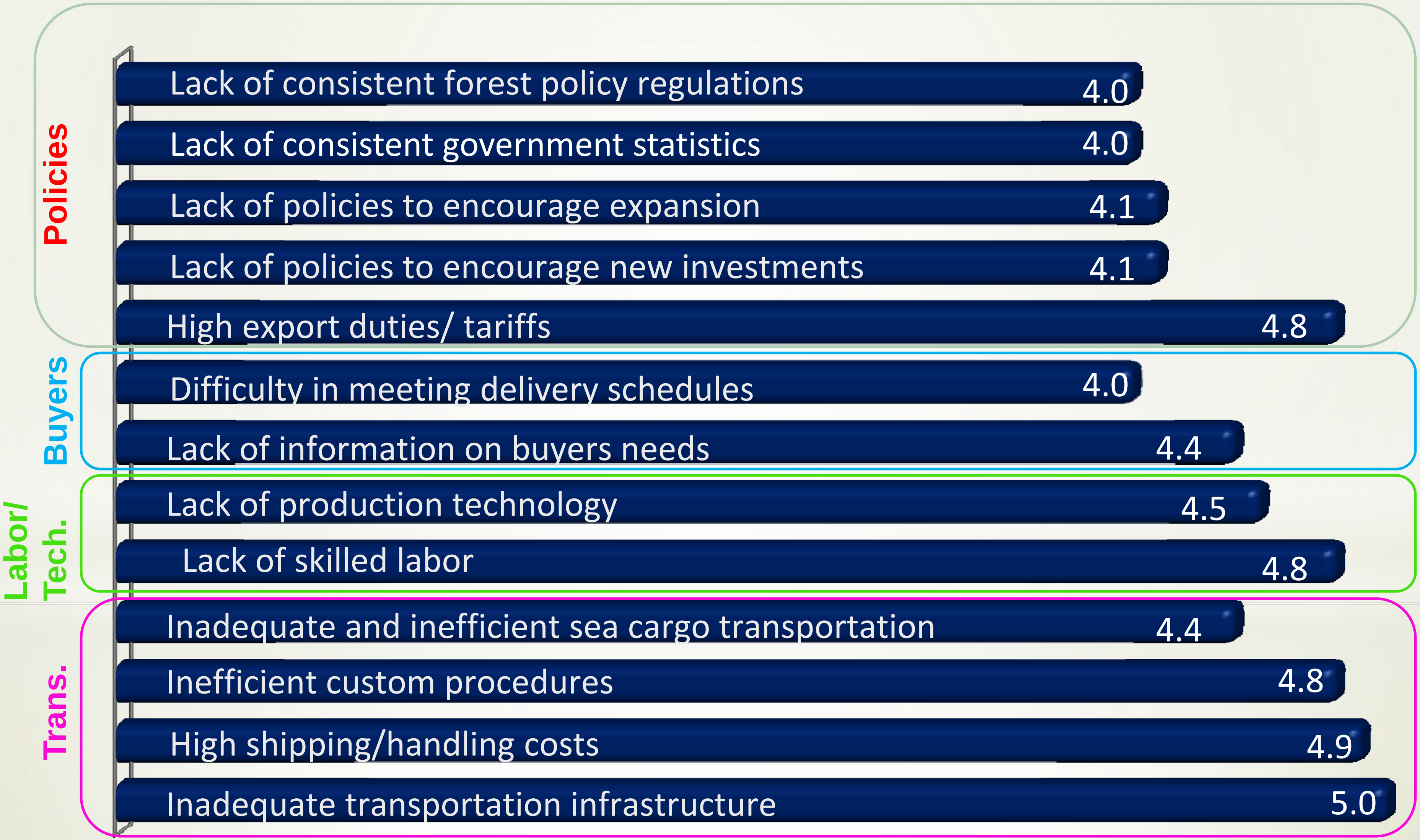
Labor and Technology

Transportation

Sri Lanka wood product exporters

Export limitations & challenges

Means, Scale: 1= Strongly disagree; 3= Neither agree nor disagree; 5= Strongly agree




Study Conclusions and Suggestions


- Sri Lankan wood products exporters are small in scale and many of them are newcomers to the export market.

- Only 100 companies export wood products.

- Major limiting factors for Sri Lanka wood product export expansion: Inefficient internal and external transportation, lack of supportive government policies and lengthy custom procedures, lack of experienced labor, old production technology, and difficulties in meeting buyer requirements.

  Government and investor institutions should take steps to strengthen the export sector by minimizing constraints, providing information, and shifting a portion of international development aid to the forest sector.

- Although Sri Lanka manufacturers target foreign niche markets, findings show that the Sri Lanka exporters do not have adequate efforts to market their products in foreign markets.

  Exporter groups/associations can work together to increase international market share by improving their marketing efforts. Also, the Export Development Board can support exporters to strengthen marketing efforts.

- Wooden toys is a major wood product export sector.

  Lead contaminated toys has become a serious issue in for importers particularly from China. U.S. wood product importers can import lead-free certified wooden toys from Sri Lanka.

- Certification is not a common concept in Sri Lanka wood product export market. However, respondents are interested in receiving more information about forest certification.

  Need for outreach and extension to build awareness about certification so industry members can make informed decisions.

U.S. Wood Product Imports with an Emphasis on Forest Certification

Rangika Perera
Ph.D. Graduate Research Assistant

Richard Vlosky
Professor and Director

Louisiana Forest Product Development Center
School of Renewable Natural Resources
Louisiana State University Agricultural Center

Forest Products Society 62nd International Convention
June 22-24, 2008

Introduction

* Growing demand for wood has exerted pressure on global primary old growth forests.

* Alternatives:
  * Secondary timber resources
  * Forest plantations
  * Imports

* Rapid increase in domestic wood demand has driven some nations from being net exporters of wood to becoming net importers.

* These global developments have intensified the need for cross-boundary trade of wood products.

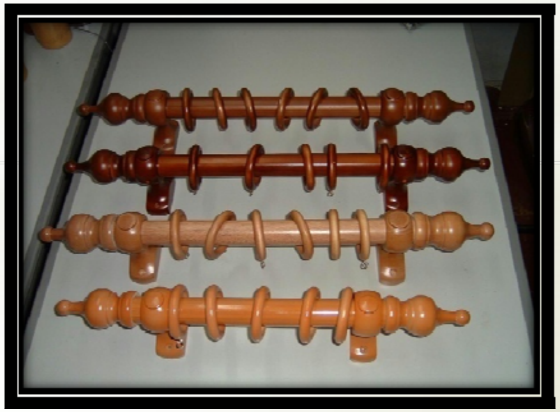
The U.S. wood product import market

- Leading global wood product importer.
- Currently a small consumer of tropical hardwoods.
- Markets for tropical wood products will increase in the future.
- The trend towards higher demand of pre-finished products will create opportunities for suppliers that can provide high quality tropical wood products.

The U.S. tropical wood product import market

- Tropical timber imports/trade in the U.S. is highly fragmented : Even small to medium scale export manufacturers can thrive on these opportunities.

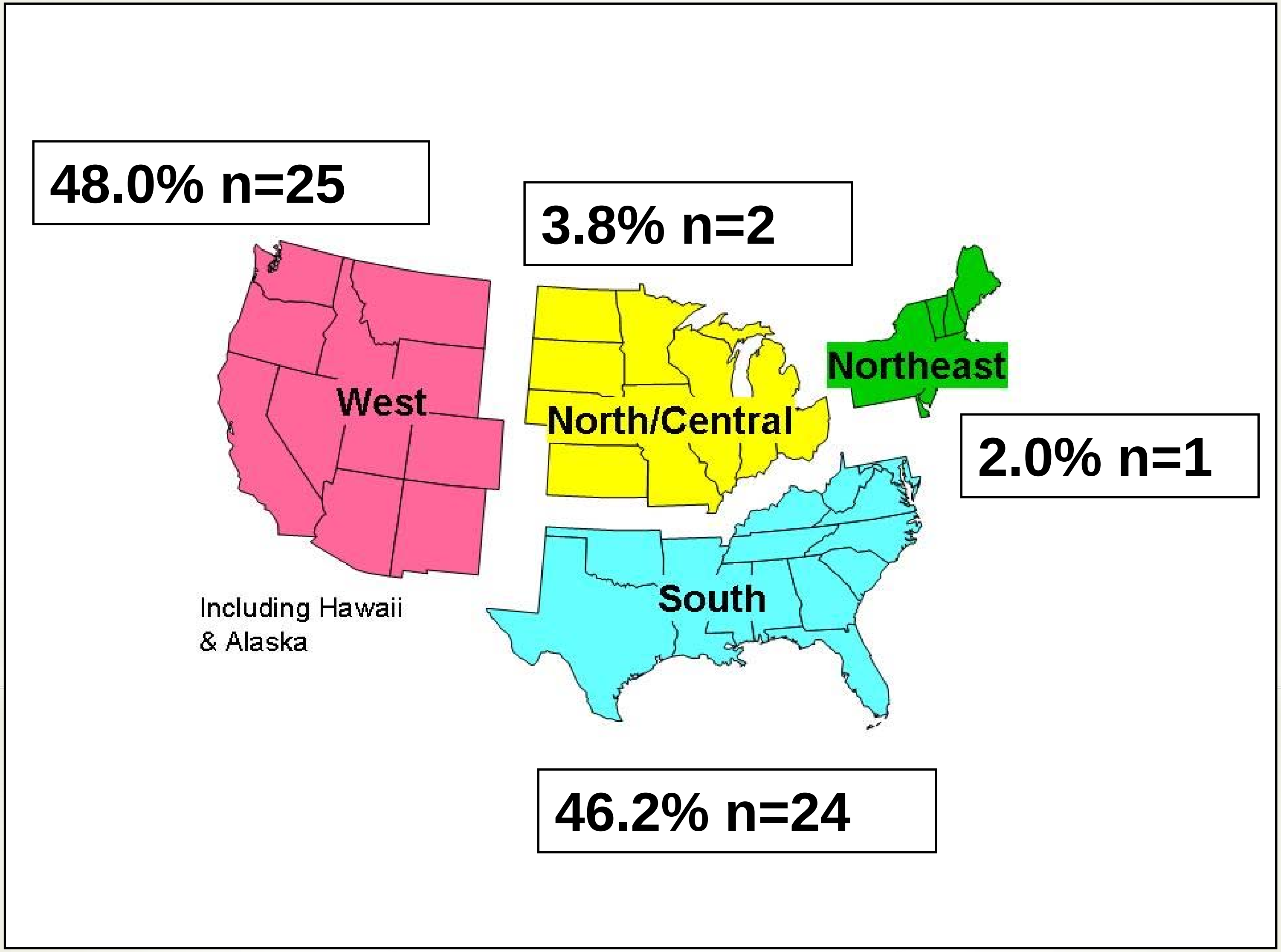
- Design and quality of wood products are means of maintaining or increasing market share.



U.S. wood product importers

Distribution of respondent corporate locations

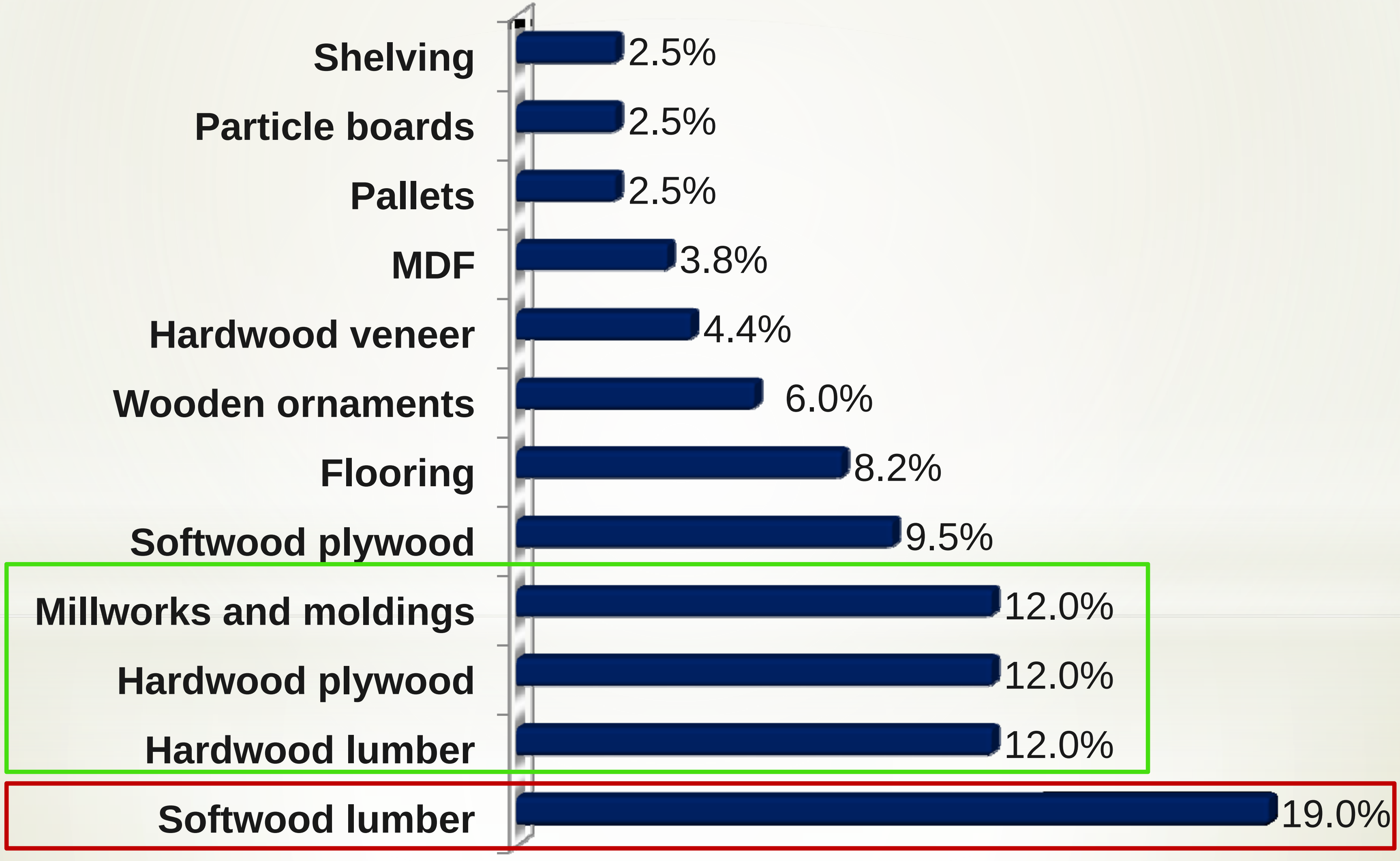
percent of respondents (n=52)



U.S. wood product importers

Wood products imported by respondents

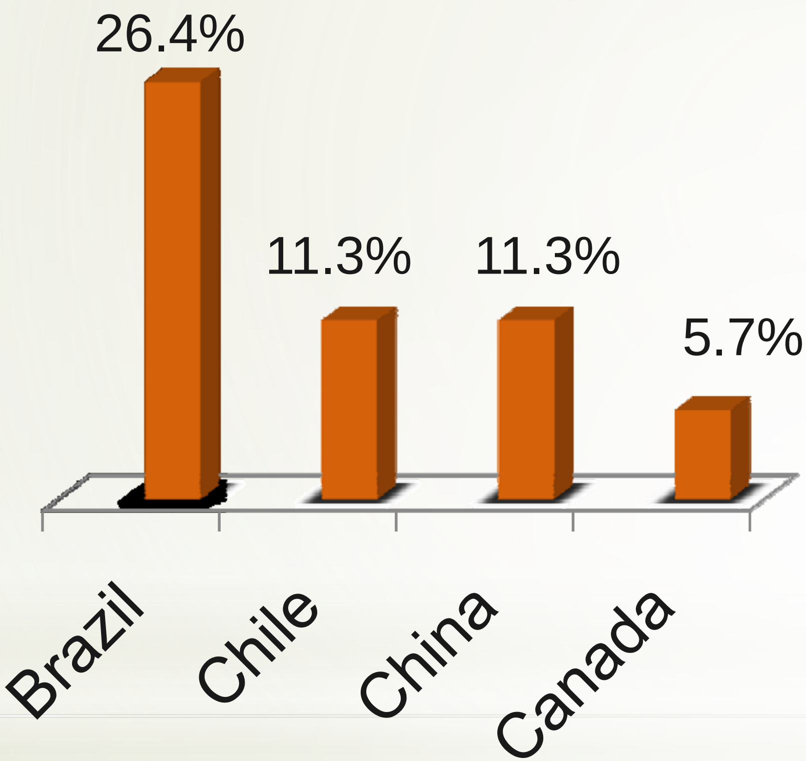
percent of respondents (n=54) (multiple responses possible)

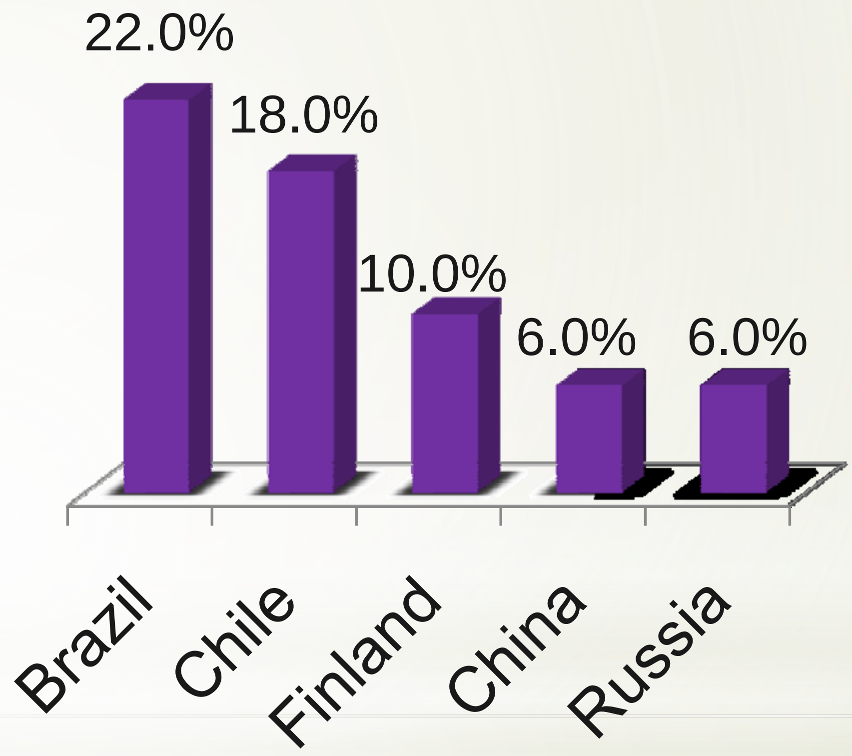


U.S. wood product importers

Major export partner countries (2006)

percent of respondents (n=54)





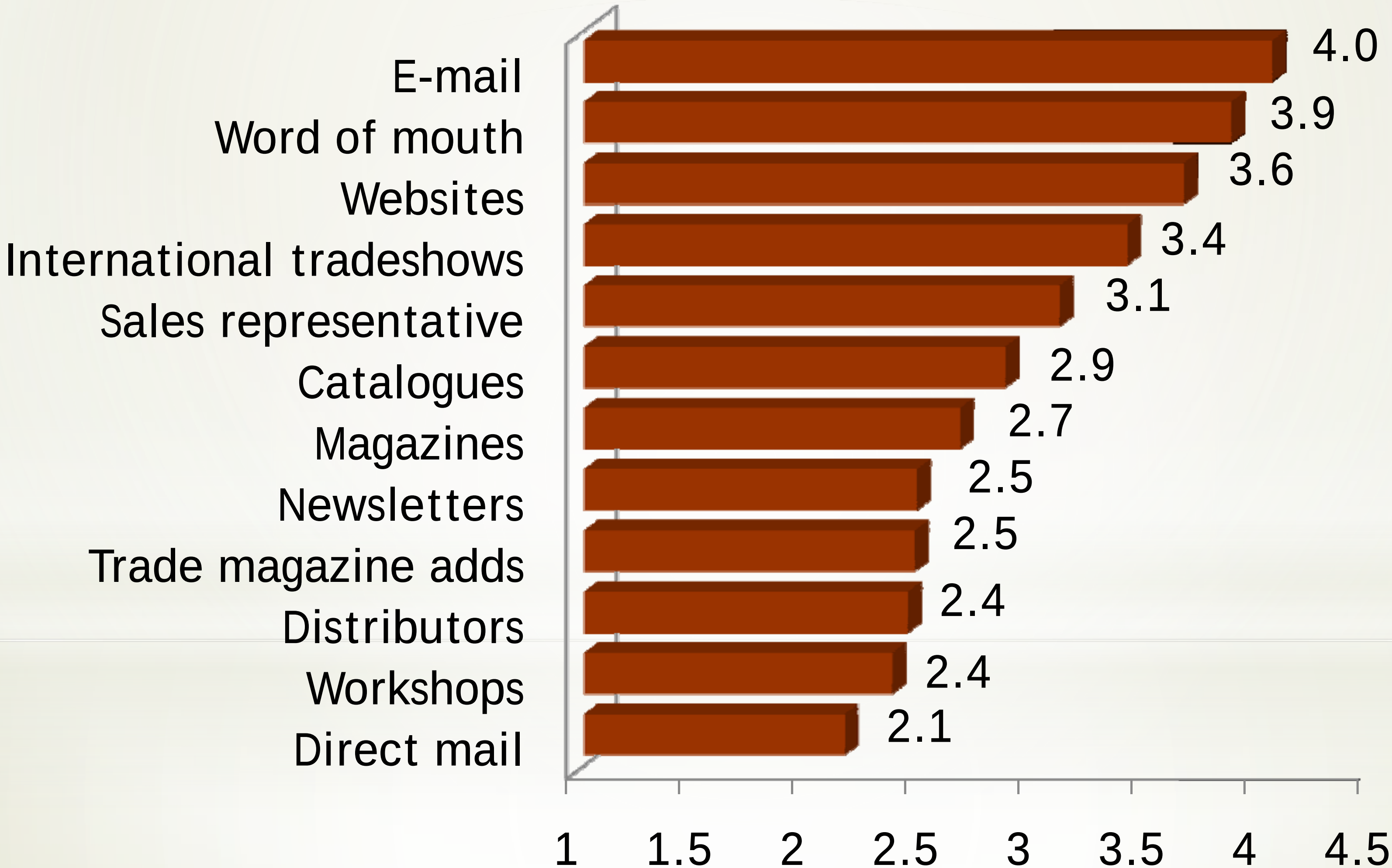
By purchase value

By product quality

U.S. wood product importers

Sources of information

Scale: 1=not important at all; 3=somewhat important; 5=very important, (n=54)



U.S. wood product importers

Foreign supplier selection criteria

Key Criteria

- Provides Certified Products/ Sustainably Managed Forests
- Client Contact
- Consistent supply
- Fair prices
- Supplier Reputation
- Timber Species

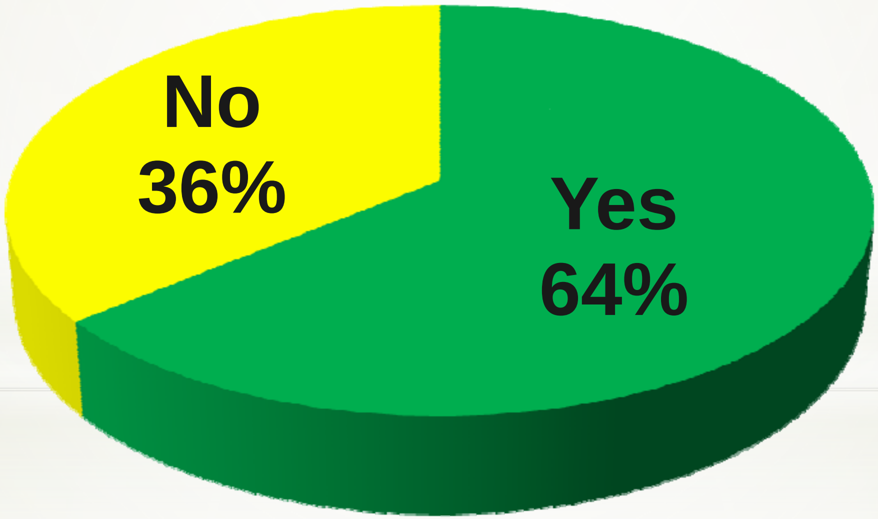
U.S. Wood Product Importers

Perceptions on Forest Certification

U.S. Wood product importers

Forest certification

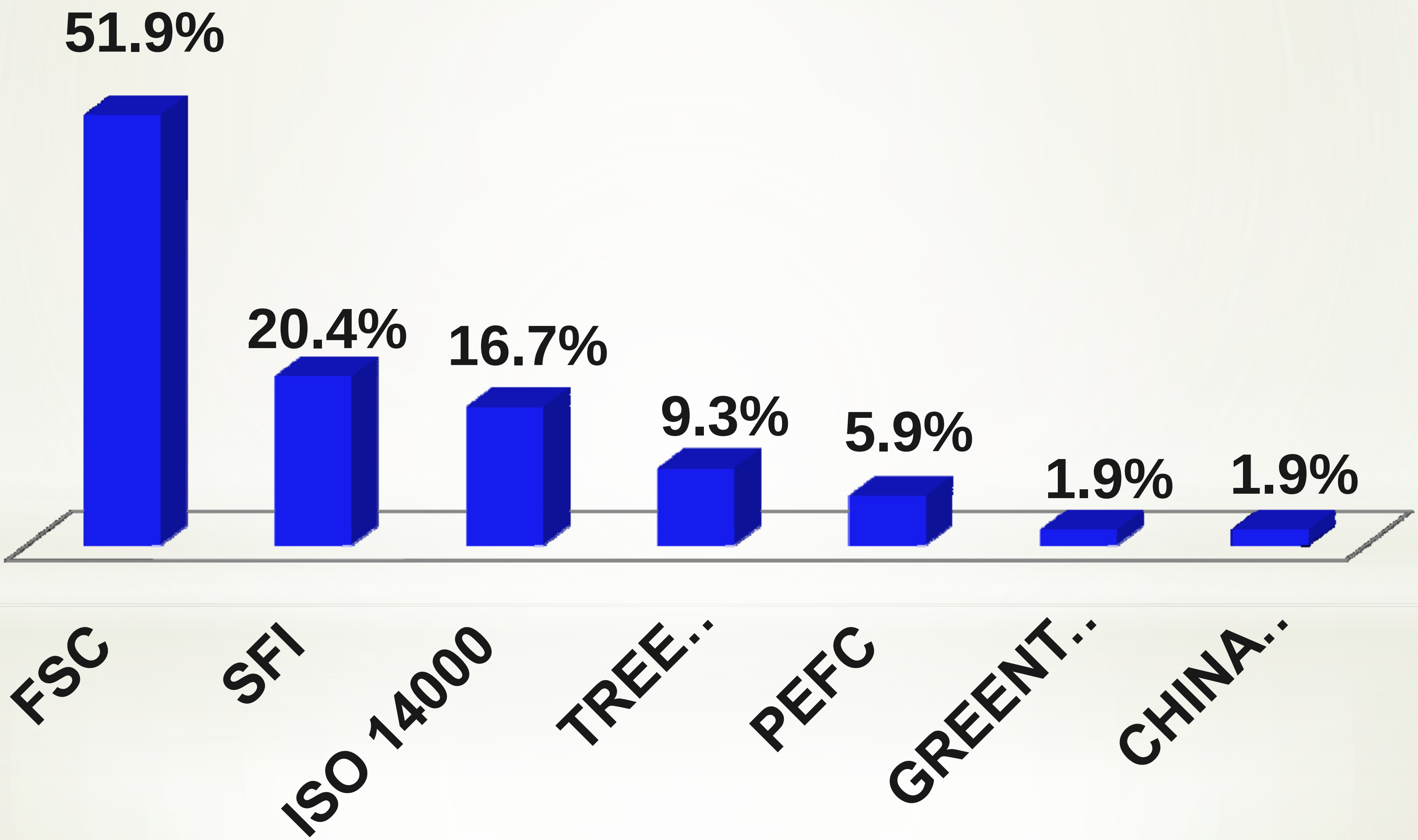
Does you company currently import certified wood products?



U.S. wood product importers

Accepted certification programs

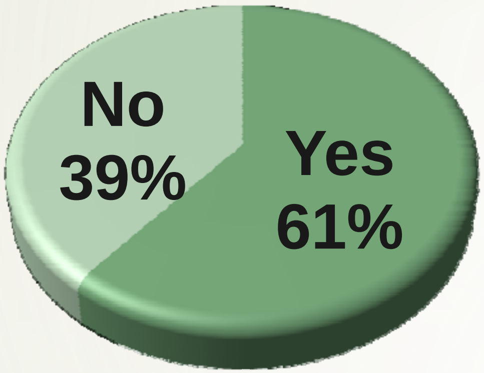
percent of respondents (n=54) (multiple responses possible)



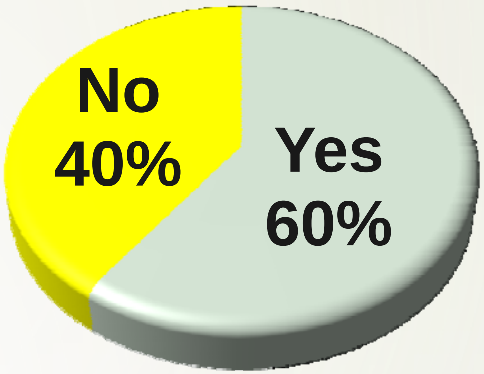
U.S. Wood product importers

Opportunities for tropical exporters

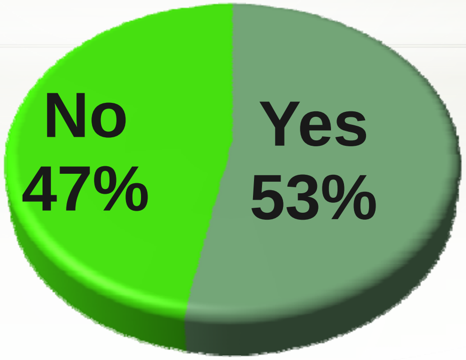
Would you like to receive information about tropical wood products?



Are you seeking new suppliers?



Do you plan to diversify the wood products you import in the next 5 years?



Conclusion and Discussion

Three market segments in U.S.:

* Small to medium scale but moderate importers
* Medium to large scale but minor importers
* Small to medium scale but major importers

Exporters can tailor marketing strategies and plans to target market segments.

Most important buyer selection factors for U.S. wood product importers: Certification and marketing, product attributes, client contact, quality products supply, and timber species and supplier reputation

Exporters should focus on selected factors to penetrate or maintain presence in the U.S. market.

Conclusion and Discussion

Word of mouth, e-mail, and web sites are the most used sources of information for U.S. importers.

Suppliers should take develop relationships and use Internet technologies to effectively convey product information to U.S buyers/importers.

Most popular certification programs for U.S. importers are FSC, SFI, and ISO 14000.

If wood products exporters wish to exploit U.S. certified wood products markets, they should gain an understanding of these programs.

* Challenges and Opportunities for Sri Lanka

Common Tropical Forestry Challenges

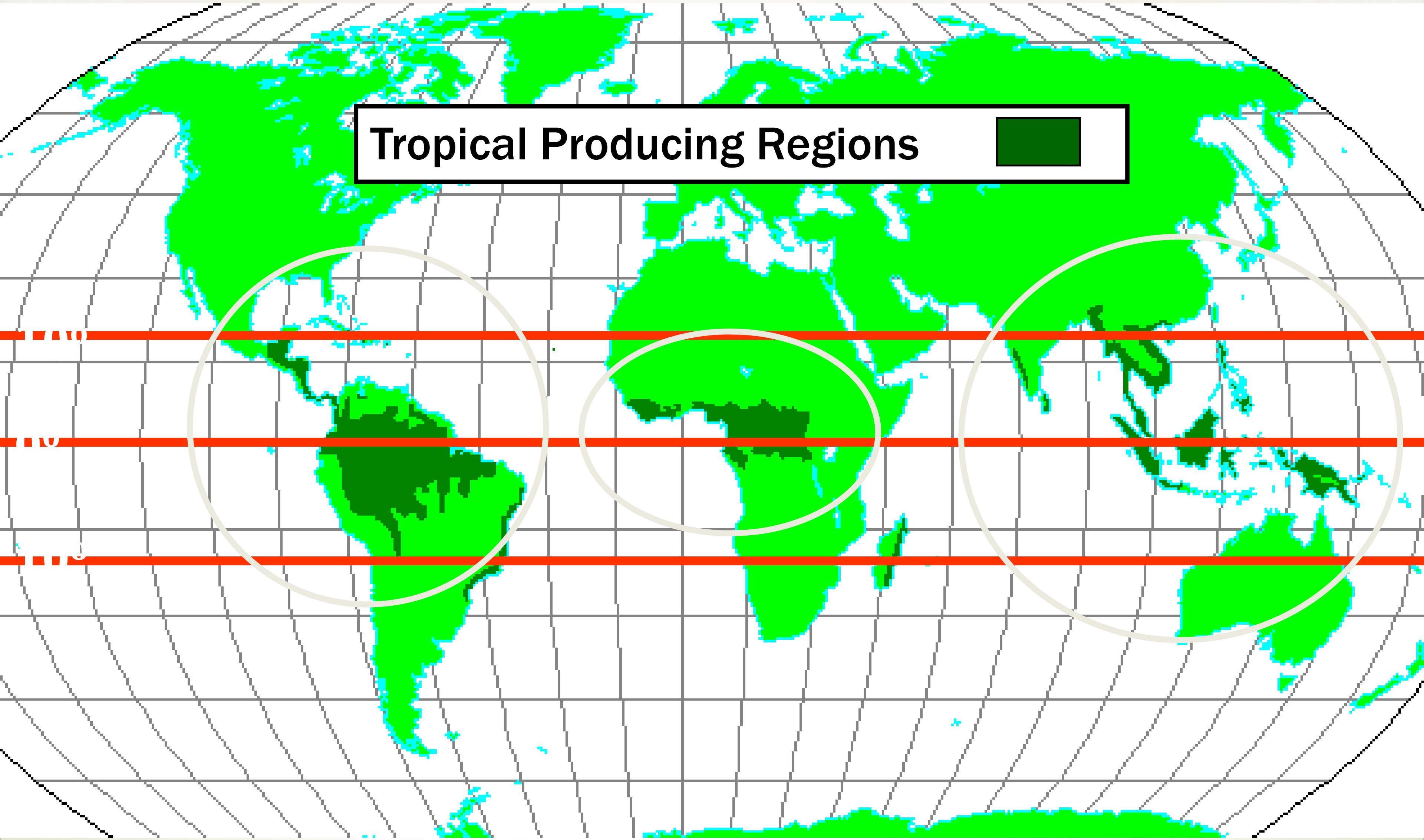
* Exploitation of forests
* Export of commodity forest products
* Overdependence on few popular species
* Inefficient utilization of wood raw material

* Deforestation

	Total Forest	Forest % of land area	Plantations	Forest Area Change	Annual rate of change
	000 ha	%	000 ha	000 ha	%
	2000	2000	2000	1990-2000	1990-2000
Nepal	3,900	27.3	133	-78	-1.8
Sri Lanka	**1,940**	**30.0**	**316**	**-35**	**-1.6**
Pakistan	2,361	3.1	980	-39	-1.5
Myanmar	34,419	52.3	821	-517	-1.4
Philippines	5,789	19.4	753	-89	-1.4
Indonesia	104,986	58.0	9,871	-1,312	-1.2
Malaysia	19,292	58.7	1,750	-237	-1.2
Thailand	14,762	28.9	4,920	-112	-0.7
Cambodia	9,335	52.9	90	-56	-0.6

Source: Mongabay.com 2005

The Competition



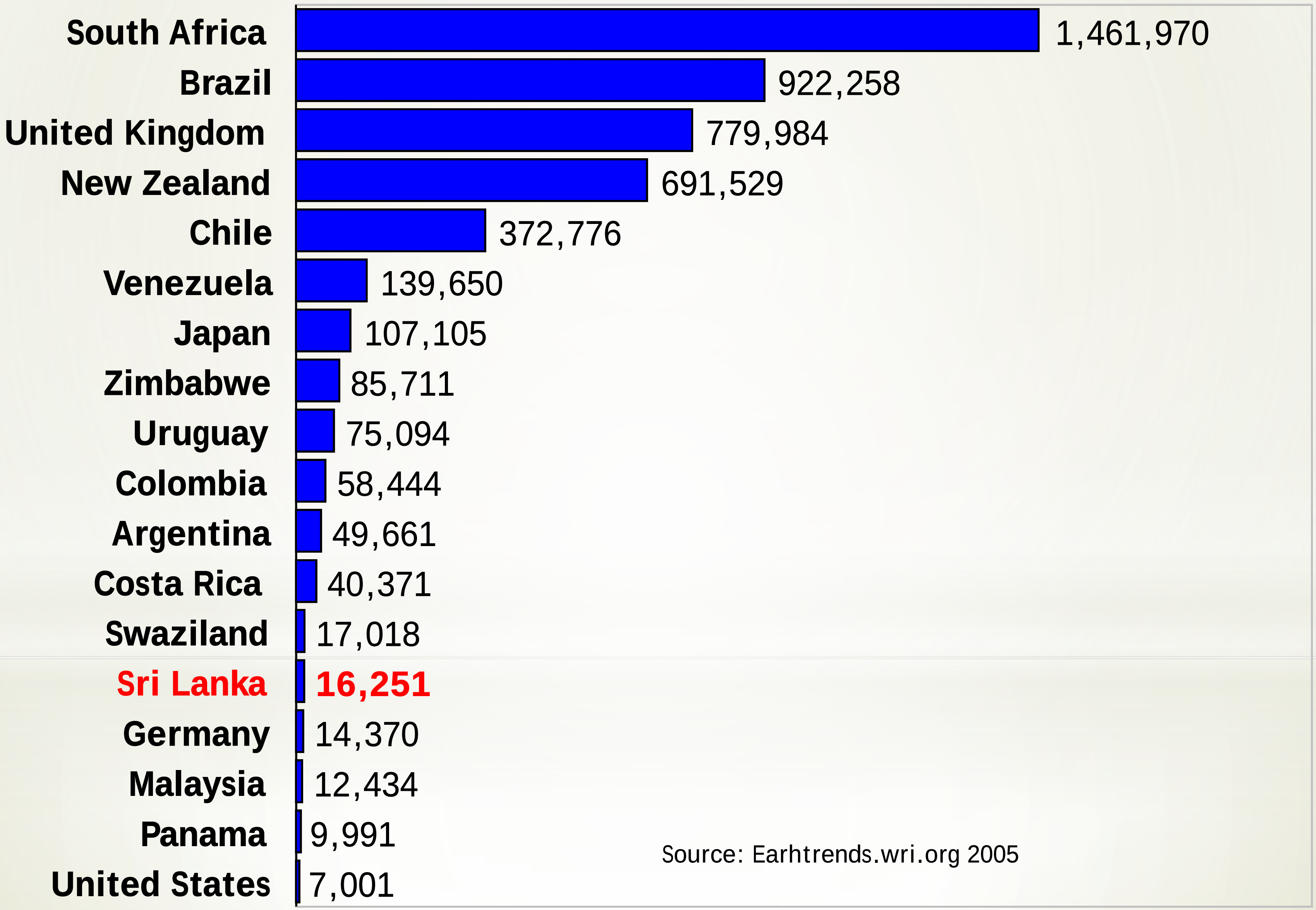
Opportunities

U.S. Imports of Forest Products From Sri Lanka (2003-2012) ($US 1,000)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Product	**Value**	**Value**	**Value**	**Value**	**Value**	**Value**	**Value**	**Value**	**Value**	**Value**
Other Value-Added Wood Prod	2,783	3,541	4,509	4,571	5,210	3,266	2,305	2,840	3,347	2,993
Hardwood Lumber	3	8	6	4	0	11	336	184	28	43
Logs and Chips	55	185	0	0	0	0	25	0	0	0
Panel Products (Incl Plywood)	24	0	0	0	6	0	12	13	0	0
	2,864	3,734	4,515	4,575	5,217	3,277	2,679	3,037	3,375	3,037

Data Source: Dept. of Commerce, U.S. Census Bureau, Foreign Trade Statistics

FSC-Certified Plantations (Hectares)



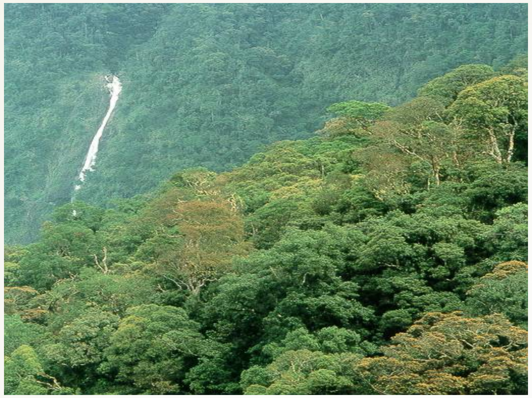
U.S. Exports of Forest Products

to Sri Lanka (2003-2012) ($US 1,000)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Product	Value	Value	Value	Value	Value	Value	Value	Value	Value	Value
TOTAL	47	57	68	917	69	117	61	719	10	19
LUMBR,D,D-FIR	0	0	0	0	0	0	0	0	0	14
PALLETS, SKIDS	0	49	0	0	14	0	0	0	0	5
WOOD,ROUGH, TRTD	36	0	0	0	0	0	0	0	0	0
SW LOGS,CNIF,OTH	0	0	0	0	0	0	0	337	0	0
HW LOGS, RD OAK	12	0	0	0	0	0	0	0	0	0
HW LOGS, WH OAK	0	0	0	0	0	0	12	14	0	0
HW LOGS, ASH	0	0	0	0	32	0	0	0	0	0
HW LOGS, CHERRY	0	0	7	0	0	0	0	0	0	0
LMBR,D,HEMLOCK	0	0	0	0	0	0	0	348	0	0
LMBR,R, WHT OAK	0	0	0	34	0	0	0	0	0	0
LMBR, OTH MAPLE	0	0	0	0	0	13	0	0	0	0
LMBR,R, OTH MAPL	0	0	7	7	0	0	0	0	0	0
LMBR,D, MAPLE	0	0	4	0	0	0	0	0	0	0
LMBR, WALNUT	0	0	0	0	0	12	0	0	0	0
SOFTWOOD MOLDING	0	0	0	0	0	0	32	0	0	0
FBD N/WK <5MM	0	0	0	0	0	0	0	10	0	0
WD FRAMES,PICTUR	0	0	41	0	0	0	0	3	0	0
CASES,BOXS,ETC	0	0	0	0	0	0	0	0	5	0
TOOLS&TOOL PARTS	0	0	0	0	9	10	10	6	5	0
FAB,STRUCTL MBRS	0	0	0	0	0	57	0	0	0	0
JOINERY,NES	0	0	0	0	0	21	0	0	0	0
TBLWARE/KTCHWARE	0	0	0	0	7	0	0	0	0	0
JEWELRY BOXS,ETC	0	7	0	0	0	4	0	0	0	0
INLAY/MARQTRY	0	0	9	0	0	0	0	0	0	0
COAT HANGERS	0	0	0	876	0	0	0	0	0	0
WOOD DOWEL PINS	0	0	0	0	7	0	7	0	0	0

Data Source: Dept. of Commerce, U.S. Census Bureau, Foreign Trade Statistics

A Integrated Approach



From the forest….

A Integrated Approach

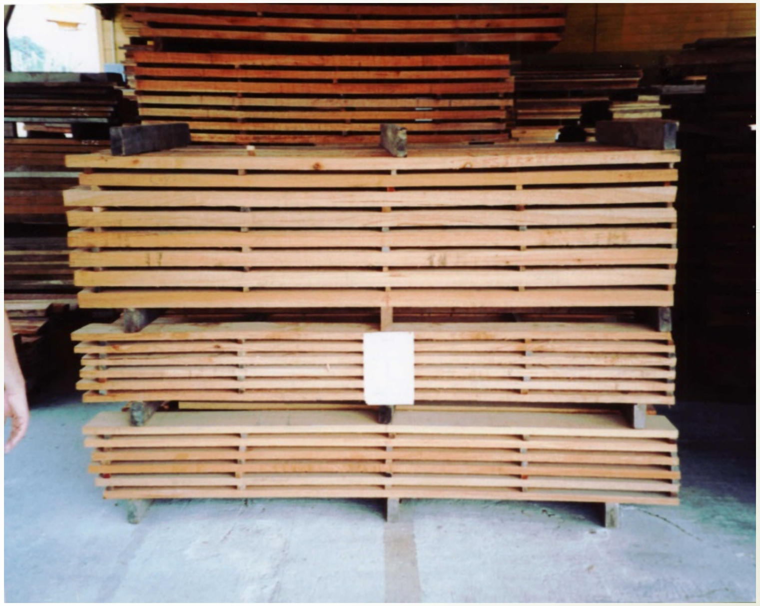
Or from plantations….

A Integrated Approach

To the mill….

A Integrated Approach

To primary products….



A Integrated Approach

To value-added products.

Labor-A Competitive Advantage

U.S.
Labor rate: 20.00 $/hr

China
Labor rate: 0.32 $/hr

Source : Morgan Keegan, Janvier 2004

Sri Lanka
Labor rate: ??? $/hr

Final Comments
Issues and Opportunities

* Word of mouth (a company's reputation) counts most in the marketplace
* Buyers don't just look at product; international experience, operations, equipment and workforce are also scrutinized
* Most buyers operate in multiple supply chain nodes
* Conduct market research

Source: Metafore 2005

Final Comments
Issues and Opportunities

* Opportunities in flooring & decking, veneers, plywood
* Small producers can aggregate supply, share technologies to access market
* Reputation is key
* Opportunities in several places in supply chains-don't restrict to one

Source: Metafore 2005

Final Comments
Issues and Opportunities

Develop Lesser-Used-Species (LUS) Potential

* Mahogany & Teak are most desired species but are under intense pressure
* Market development for LUS can and should be undertaken
* Certification should be a part of the mix
* Can market environmental attributes
* Can develop competitive advantage in market niches

Recommendations

* Potential competitive advantage for certified wood products.
* Focus on key target markets-Europe and the U.S.
* Develop formal organizational structures to coordinate export activities.
* Conduct national SWOT analysis: value-chain, production processes, export mechanisms, policies, competitive environment, etc. to identify specific weaknesses and strengths.

Questions?