Forest Products Trade

Megaflorestais 2015

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Outline

Forest Sector Products and Trade

- Commodities
- Global Trade in Forest Commodities

Production and market trends

1. Pulp production shift to South America
2. Packaging production expands in China
3. Newsprint decline in the age of electronic media
4. Divergent paths of forest sector development
5. Intersection of environmental and market considerations
Commodity markets

Commodities
- Interchangeable goods that are essentially uniform across producers
  - E.g. gold, wheat, sugar

Commodity markets
- Price takers
  - Common price
- Compete on cost basis
  - No product differentiation
**Solid wood products**
- Mainly used in construction
- Includes wood for energy and to make frames for paintings or carpentry

**Wood pulp**
- A fibrous material made by breaking down the wood mechanically or chemically.
- Predominantly used to make paper products
- Pulp is also used to make textile fibres and chemicals.

**Paper Products**
- Includes Paper to write/print on, newspaper, cardboard and packaging, toilet paper, tissues,
Global Trade in Forest Commodities: US$625 Billion in 2014

- Paper Products: $296.9 billion
- Wood Products: $236.4 billion
- Pulp: $91.7 billion
Pulp production shift to South America

Access to fibre
Low cost production
## Southern producer cost advantages

Factor costs in pulp production - Average US$ per tonne

<table>
<thead>
<tr>
<th>Factor</th>
<th>North America NBSK US$/tonne</th>
<th>Chile SBSK US$/tonne</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fibre</td>
<td>236</td>
<td>175</td>
</tr>
<tr>
<td>Chemicals</td>
<td>46</td>
<td>51</td>
</tr>
<tr>
<td>Energy</td>
<td>65</td>
<td>52</td>
</tr>
<tr>
<td>Labour</td>
<td>88</td>
<td>9</td>
</tr>
<tr>
<td>Materials</td>
<td>45</td>
<td>41</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$476</strong></td>
<td><strong>$315</strong></td>
</tr>
</tbody>
</table>
Change in Wood Pulp Production (2000-2013)

- North America: -25.0%
- South America: 110.0%
- Asia: 10.0%
- Europe: 5.0%
Packaging production expands in China

Proximity to the global hub of manufacturing
Expansion of global trade and centre of manufacturing shift to China

- Global trade is up 275% since 2002
- China’s share grew from 6% to 10%
  - $658 Billion to $3.17 Trillion

- Think of all the packaging required for all those goods.
  - Does it make sense to ship empty boxes?
Packaging expansion in China

US: 46 million tonnes (2000 and 2013)

Newsprint decline in the age of electronic media

structural change in the paper market
Structural change in some papers market

North American newsprint demand has been declining since its peak in 2000

Similar trend expected to start in developing nations post-2020
Divergent paths of forest sector development

Role of institutions and markets are important
Where to locate production?

Companies must navigate the institutional environment

Factor costs:
- Fibre
- Labour
- Energy
- Materials
Forest sector policy environments

- US South, New Zealand, Brazil and Chile
  - Government support for plantations
  - Large ports and distribution networks

- Community-centered policies such as:
  - Requiring timber concessionaires to designate community-use zones within licensed forest (e.g. Malaysia).
  - Burkina Faso developed a national strategy for the sustainable use and valorization of non-wood forest enterprises in 2010.
Forest sector policy environments

- **China**
  - Recent announcement to phase out all commercial logging of natural forests by 2017.
    - Offset by 14 million hectares of strategic timber reserves, most of them located in the southern parts of the country.

- **Russia**
  - Largest area of natural forests in the world
    - Institutional environment challenge to secure capital to invest in mills and logistics network.
  - Export tax on logs boost domestic manufacturing
Intersection of environmental and market considerations

- Growing global emphasis on sustainable forest management
  - Global focus on illegal logging and deforestation
  - Consumer demand drives forest certification

- Canada a leader in sustainable forest management
  - largest area of third-party certified forests in the world
  - Creates a competitive advantage
Canadian Forest Service