



Philip A. Araman
Project Leader
USDA Forest Service
Blacksburg, VA

Hardwood Export Markets: A Look at the Past, A Look at the Future

Introduction of Philip A. Araman

Mr. Fields: Hardly a day goes by without the subject of Hardwood Exporting coming up in conversation on the phone or across my desk in a trade journal or newsletter. It was in the not-so-distant past that hardwood exporting activities were confined to a handful of firms generally located in port cities on the Atlantic or Gulf coast with historic ties to specific markets in Europe and very few with Pacific Rim countries.

Today the situation could not be more different. Containers for export are loaded at the sawmill or at the distribution yard and easily transported by truck or rail to the port and there by ocean freight, and our biggest customers, after Canada which remains the number one U.S. destination, are Japan and Taiwan before any of the European Community countries come into the picture.

To clarify this picture of the hardwood exporting market, we have today Philip A. Araman, project leader with the USDA Forest Service, Southeastern Forest Experiment Station in

Blacksburg, Virginia. Mr. Araman is a researcher specializing in marketing eastern hardwoods whose last 15 publications have dealt with international trade topics. Mr. Araman received his Bachelor of Science in wood science and technology from North Carolina State University and his Master of Science in Forest Products from Virginia Polytechnic Institute and State University. He is a member of the Forest Products Research Society, the Hardwood Research Council, the Southern Forest Economic Workers, and the Hardwood Export Trade Council. Mr. Araman.

Mr. Araman: I want to thank you for inviting me to your convention here in New Orleans and for inviting me here to speak to all of you about the Hardwood Export Market: A 'Look at the Past, A Look at the Future. I must admit this is really a great audience for me. I don't think I have spoken before this many people before and especially people who could view a lot of what I say very critically.

My boss told me before I came, no

jokes, no politics, and I won't ask any questions of you out there. However, I am going to show you some slides and hopefully you will be able to get a lot out of them. Also I would like to say that this talk is based on research conducted while I was stationed at our Forest Service Lab in Princeton, WV. One of our thrusts there was international trade. I am now located in Blacksburg, VA, with a research mission in primary hardwood processing and products. The international trade work is continuing at the Princeton lab.

Now for a short commercial on our work at Blacksburg. We are doing things that hopefully will be beneficial to your industry in the processing and products area. We are working on computer-aided manufacturing for edging and trimming hardwood grade lumber. We are working on computer vision systems research with the idea of being able to pickup defects with a camera and computer linked together to ultimately, maybe, computer grade lumber with a vision system. If we can do that, then we could also provide information on what is in a pack of lumber as far as potential

cuttings are concerned. We can simulate cutting the lumber up either into standard sizes or specific sizes.

We are also doing work in the area of material properties for pallet parts to tie into a Pallet Design System program to help insure that this low-grade outlet continues to be strong. We are doing some work in bacterial infected Oak and other things, such as the production of and markets for short length lumber. We work with the Hardwood Research Council for counsel and guidance. Enough for the commercial.

(Begins slide presentation)

I will concentrate today on hardwood lumber exports and their markets along with some discussion of dimension stock, and I will touch on veneer and log exports.

When you talk about the hardwood export market, the products are mostly lumber, veneer, and logs. Also, when we talk about the export market, we are talking about high quality, high-grade material. Our previous speaker, Frank Paxton, Jr., spoke about that. He says you are giving too much attention to this market with high quality, high-grade material and not enough to his market. I think both markets should receive increased attention in this area.

Some examples of export products include veneer quality logs and high-grade veneer. The veneer is normally cut thinner for the export market than the domestic market. About 50% of our hardwood veneer production is exported. It's a very international market. They do other things such as the packaging of veneer in grouped pallet loads and not individual flitches as is done for the domestic market.

The hardwood lumber market is a relatively clear type of market. This is what the customers would prefer overseas for the same reasons that the previous speaker spoke about. The customers do not want a lot of waste in the product when he gets it.

Packaging is very important on the export market. I'll show you a few examples (slides). Notice the end trimming, the company label, the heavy strapping, and the corner protectors on each of these packages of lumber.

Most of our export lumber has to be kiln dried and there are many positive reasons for doing that. The overseas customers in many cases don't have

kilns, plus it helps with the quality control of the material. In most cases the lumber is double end trimmed and end coated. This is normally for appearance and identity reasons. The loads are very well marked and are normally shipped in containers for protection and security. In some cases people are actually putting some wrapping over the lumber.

Let's take a look at an overview of the hardwood market. When we look at 1986 and 1987 exports you can see that hardwood lumber is by far the most predominant product in the export market. Logs and veneer are also important. We do have some dimension stock mixed in the lumber export numbers, but we don't know exactly how much. We have also had a large jump in the lumber market from 1986 to 1987.

Let's look at species being exported. These are projections for 1988. The exact numbers totaling around 1100 million feet may not hold true but the proportions will probably stay the same. We could have close to 500 million feet of Red Oak lumber going overseas this year on the export market. The next, of course, is White Oak (170 million feet) and then the Ash/Hickory (130 million feet), then Walnut (45 million feet), Hard Maple, Maple, Beech and Birch (30 million feet). In the other category (210 million feet) you have a lot of Black Cherry, Yellow Poplar and Red Alder.

When we look at the major customers, who's buying this hardwood lumber, you can see that Canada (280 million feet) is number one, followed closely by Japan (210 million feet), Taiwan (90 million feet) and then the European countries.

What kind of an impact is this having on your industry? If we say, for instance, that you are producing 10 billion board feet of sawn lumber, about 10% on a board foot basis is going on the export market. That figures to about 23% of the actual value of the material that you are producing when you add in kiln drying and look at the grades of lumber that are actually being exported. If you drop back and say that you are producing closer to 8.5 billion board feet, then those percentages go up. We don't know exactly how much lumber you are producing out there, so that's why I offer this. Production is probably closer to the 10 billion, and you can see

that exports are very important to your industry.

The trade has been shifting and it's been growing. Back in 1975 the total exports amounted to about 200 million board feet. By 1980 it climbed to close to 500 million board feet. In 1986 it was over 600 million board feet and in 1987 over 800 million board feet. This year we are projecting about 1100 million board feet.

We have had changes. The Canadian market has traditionally been strong. The European market came on strong between 1975 and 1980 and has been increasing in the past couple of years. The Pacific Rim market, notably Taiwan, Japan and South Korea, was relatively minor in the 70's and in the early 80's and then started picking up with dramatic increases each year. We now look at the three market areas as being almost equal in their demands.

Why the increased exports? I'll try to offer some reasons here other than the fact that hardwoods are needed overseas and there is demand there. The biggest reason is that we are the number one producer of sawn hardwoods in the world. Your industry is the largest. When you take a look at some of the recent production information from the Food and Agricultural Organization of the United Nations, you can see the USA is number one with about 13% of the total production in the world, followed by India, Russia, China, Brazil, Malaysia, Indonesia, Japan, and France. The FAO is estimating the India, China, Brazil, Malaysia, and Indonesia numbers. They are not real sure about those. However, most people know that you are the number one producers of sawn hardwoods in the world.

In the world you rank as number three in volume and two in value as far as exporting is concerned. We also have abundant hardwood resources in this country. Going through our Forest Service inventory publications, we smoothed the data to a 1985 base. Based upon past growth inventories, we can project increasing inventories of saw timber. We could have around 1 trillion board feet by the year 2000.

Let's take a closer look at the major new markets in the Pacific Rim. If you look at exports to Japan in 1987 you can see that most of it was lumber (80%) and about 17% logs. Dimension is becoming

ing more popular. If you look at a species mix going to Japan, they are buying Red (24%) and White (12%) Oak, but they are also buying a lot of other species, namely, Red Alder, Yellow Poplar, Cottonwood, and Cherry.

Why are they buying this wood? They like and appreciate fine hardwoods. They prefer temperate hardwoods in furniture. Their customers are demanding more real wood. Their resources are limited and young, and U.S. wood is less expensive.

What do they prefer? They prefer fine grain, uniform colored hardwoods, slowly grown Oak, quarter-sawn material, and they also like inexpensive utility material.

When we take a look at Taiwan, we see that they are also mainly purchasing lumber (70%) and also quite a bit of veneer (11 %) along with their logs (19%). Taiwan needs our wood to make export products going to the U. S., Canada, Japan, and Europe. Local Oak supplies from Japan are limited and too expensive, Almost 30% of the furniture imports coming to this country are coming from Taiwan. They are the leading exporter of furniture to this country. The Taiwanese manufacturers have to purchase Oak (61% Red Oak and 20% White Oak). In many cases they are told by manufacturers here who are buying their furniture. They try to and do purchase medium grade material. They would like to reduce their wood cost. This is a consistent goal of theirs and dimension is becoming more possible and is being used.

The Koreans on the other hand are buying more logs (48%) than the Taiwanese and Japanese, and they are also buying quite a bit of veneer (19%). Their species mix is quite similar to the Japanese and they are also buying a lot of Walnut and Maple. The Koreans need our wood as the Taiwanese to make furniture for the export market. Local supplies of select species are limited and expensive. Korean manufacturers in general are larger firms and control more of their furniture marketing over here including species selection, and, therefore, they purchase a higher percentage of logs and veneer and look for cheaper lumber for their solid parts. In other words, they are looking for the impact parts for their veneered surfaces and substitute Rubberwood and Ramin

and other woods for solid parts if they can. They could be very interested in some of our "other non-select species,"

What are some of the concerns of these people overseas who are buying your material in looking to the future? They want to know about our standing saw timber inventory. Is it increasing or decreasing? They are concerned about our species composition. Can our exports increase for our select species? Are other species available? What is the grade-mix of our standing sawtimber in log yard and in produced lumber?

Let's take a closer look at our resources. We have abundant resources but we have a species mix demand problem. In the world market the most highly demanded U.S. woods are select Red Oaks, White Oaks, and then Hard Maple, Yellow Birch, Black Cherry, Black Walnut and the Ashes. We need more demand for other plentiful species. We also have some overall quality problems in the woods.

When you take a look at our hardwood exports, we estimate that over 90% are in the above mentioned select species, but when you look at our inventory, only about 33% are in select species out in the forests. So that's a problem. When you take a look at our species mix, you can see that the Select Oaks are about 20%, and actually we have more of the other Oaks than we have of the Select Oaks. We have good volumes of Hickory, Soft Maple, the Gums, and Yellow Poplar.

What about quality? If you went out into the woods and somebody forced you to bring in everything that we call saw logs to your mill, the distribution on Forest Service grading rules would be about 15% grade 1, 24% grade 2, and 61% grades 3 and 4. If you took that kind of material and brought it into your mill and produced lumber, you could expect-about 12% FAS and Selects, 23% #1 Common, 27% #2 Common, and 38% below #2 Common. Granted, you are not bringing in everything that we call saw logs. You are not bringing in the smaller diameter material and so you are getting a better grade mix of lumber out of your sawmill. This is the way we look at it, so we do have some problems here. We have problems with our species mix and we have problems with the lower grade material. An alternative to using the lower grade material

is to produce and market dimension stock and short lumber.

I would just like to show you a couple of overseas operations where they have similar problems. They start with low grade material and in some cases they go directly to rough dimension in the green. I'll show you some product examples and how they are doing it. (Shows slides of sawmills in Belgium, France, and Japan). Those are possibilities for you to consider for better utilizing some of our medium and low grade material and doing it right there in the sawmill and getting rid of the waste at your plant.

Let's get back to international trade and some hardwood lumber export projections. What might the future look like as far as hardwood lumber projections are concerned? The blue bars in this slide are some original thoughts I had about a year ago and if you look at the 1988 data, I've got down about 600 million board feet. Well this year may turn out with exports around 1100 million board feet, So you can see the market has really taken off.

Most people when they try to project the future try to be conservative and don't look for increases like that. But a lot of things have come into play—the weakened dollar and improved economies—and the export market has really built up. By 1989, we might be up around or over the 1.2 billion board foot mark. If our promotional efforts continue to be good and solid and exporters continue to service this market, we could have numbers in the 1.4 to 1.5 billion board feet in the 1990's.

The future looks good if we get more species involved in the market, and if we get more dimension cut from the medium and low grade lumber either in sawmills or dimension plants into the export market. We do need more markets, meaning more uses of our lumber in the present market and new markets like the Middle East. We definitely need more exposure if this is going to happen.

I say the challenge is yours and I encourage you to join in and support your association activities through the Hardwood Export Trade Council or join the Hardwood Export Trade Council as a company supporter. They will be meeting this afternoon and they are going to talk about many things including an intelligence mission to Southeast

Asia. They are going to talk about Japan and the United Kingdom TEA projects which are Targeted Export Assistance projects to promote our hardwoods overseas. They will also talk about their overseas offices, trade fair participation, and publications of which they have several right now -- *Hardwoods of the U.S.A.*, a special one on Poplar, and one

on dimension stock.

You can contribute things like time, funding, and samples for market development. You can help promote and push more species, you can help promote upgraded lumber, and you can push dimension products. Along with all this, you also need to keep some healthy interest in things like pallet

material markets, because as you increase your exports, you are going to be generating a lot of lower grade material.

Thank you very much for your attention. I'll be here through tomorrow and if you have any questions, I would love to answer them.

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