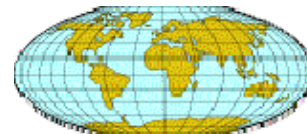


# Virginia Forest Products Export News



Virginia Department of Agriculture and Consumer Services  
Office of International Marketing

Fall - Winter 2008

## Domestic Market Overview

The slowing US economy is regular news in daily media. The housing bubble, the credit crisis, the Wall Street crash, and the subsequent federal bailout all took place since the *Summer 2008* issue of this newsletter. While these events occurred over a very short period of time, poor lending and spending decisions leading up to these events have been occurring for a much longer period of time. It is going to take some time for the housing market to stabilize and then recover, and because housing is such a strong indicator for wood product use (i.e. framing lumber, flooring, moulding, cabinets, furniture), the domestic slump that many wood products has seen over the last couple of years will likely continue for another 18-24 months.

A quick look at the October 4, 2008, issue of the *Hardwood Market Report* (pages 14- 15) shows that lumber prices are flat or down over the entire range of hardwood species and grades over the last two years. This creates significant challenges because nearly all inputs are up over the last two years.

The run up in oil prices in the first 9 months of this year and the increased challenges with ocean freight and bookings had many wondering if some or all of the off shore furniture manufacturing would return to the United States. Probably not, especially since fuel costs have eased, but for further insight on this topic, see the articles in the "Reference" section on the back page.

It is good to remind ourselves the importance of the wood products industry to the Virginia Economy. The following are recent statistics promoted by the Virginia Economic Development Partnership.

### **Virginia's Wood Products Industry**

- A \$3.4 Billion Industry
- Supported by 15.8 million acres of forest

- More than 6,000 manufacturing companies operate in Virginia, with wood products ranking #1 in number of companies with 1,130 (19% of the total)
- Employing over 45,000 Virginians – second largest industry by employment and 1 out of 6 manufacturing jobs

## Export Market Overview

### **Global Wood Fiber Prices Hit Record Highs in 2008Q2**

*Wood fiber prices worldwide have been rising steadily for the past six years, reaching record levels in 2008Q2. Expanding demand for renewable energy may potentially drive prices even higher in many countries in the near future, according to Hakan Ekstrom, president of Wood Resources International. Since 2002, global average prices for pulpwood have risen 67% for softwood and 64% for hardwood, in US dollar terms.*

*To date, most pulpwood has been consumed by the pulp and paper sector, with smaller amounts used to produce wood-based panels such as MDF. The hot new market for wood fiber is that of biomass energy; demand in both Europe and North America is expected to soar over the next five to ten years. With the supply of wood fiber relatively inelastic, at least in the short term, this sudden new demand would normally be expected to push wood prices to unprecedented new heights. However, Ekstrom points out that the availability and cost of ocean transport may restrict international trade in wood fiber to a great extent. "A lot of new power projects are being developed with the **expectation** that "waste wood" will be both **relatively inexpensive and vessels for transport will be readily available**. Both assumptions may prove to be highly optimistic."*

(this excerpt from **Timber Trends** – September 2008, published by The Campbell Group, LLC and authored by Bruce Glass, PhD., Forest Economist – **emphasis added**)

With the pullback in oil prices, it will be very interesting to see if governments continue to promote and fund alternative fuel research and development that was so much talked about as oil approached \$145/barrel.

The dynamics of many international markets are changing. The year started out with a weakening US dollar that saw lots of interest in many markets due to the weak dollar. For instance, the Polish *zloty* was at 2.06 on July 24, the Taiwan *dollar* was at 30.12 on March 25, and the *Euro* was 0.62 on April 22. However, as the chart below shows, the US dollar has strengthened against most currency since the beginning of 2008. This makes US goods much more expensive in these markets. For example, wood sold in India on Nov. 4 at the same US Dollar price as Jan. 1 would cost almost 21% more, even though the US Dollar price remained constant.

#### 2008 Year To Date change in Currency

1 US\$ = foreign currency

	Jan. 1	Nov. 4	YTD change
China <i>yuan</i>	7.31	6.83	+6.6%
Taiwan <i>dollar</i>	32.43	32.85	-1.3%
Euro Area <i>euro</i>	0.68	0.77	-13.2%
Japan <i>yen</i>	111.40	99.7	+10.5%
Poland <i>zloty</i>	2.47	2.72	-10.1%
Mexico <i>peso</i>	10.91	12.82	-17.5%
Brazil <i>real</i>	1.78	2.12	-19.1%
India <i>rupee</i>	39.41	47.63	-20.9%

(Source: Yahoo Finance - <http://finance.yahoo.com>)

Currency rates are only part of the demand equation. The overall slow down in the global economy has affected most buyers. So while the exchange rate has been favorable in China and volumes through August have increased year-over-year, the same does not hold true for Japan (see *Virginia Export Trade Data* chart that follows)

#### General Market Comments

*Hardwood Market Report - 8/30/08* "Cherry exports are down in both logs and lumber, with lumber volumes dropping nearly 10 million board feet, or 36.1% in the first half of 2008.

*Hardwood Market Report - 9/20/08* "Exports of White Oak are down in most major world markets - Vietnam -21.3%; China -4.5%; UK -28.3%; Spain- 50.7%; Italy -41.8%; Germany -26.1% Ireland -46.1%; Mexico -28.7%, and Canada -7.1% through July 2008 compared to last year."

*Hardwood Market Report - 9/27/08* "US hardwood exports to Vietnam... Year to date, lumber shipments

climbed 14.5% while log exports grew 52.4%."

"US shipments of North American species to the European Union have fallen 28.4% compared to last year."

"Many factors beyond the control of exporters hampered business to the rest of the world. Unstable financial markets, tighter credit, inflation, higher freight rates, and soft housing markets are all problems North American lumber and log suppliers cannot change. However, until these problems are corrected, business will remain challenging"

There have been multiple reports of containers of lumber or logs ordered but not accepted or paid for once they arrive in foreign ports because buyers no longer need the raw material or do not have the cash or credit to pay for the product. Reports have come from China, Italy, and other European markets.

In addition, there are numerous published reports of rising labor and production costs in the traditional furniture manufacturing areas in China. It is expected that future capital spending for furniture manufacturing will occur in lower labor cost regions including inland China, Vietnam, and Indonesia.

#### Emerging Export Markets

##### *Virginia Export Trade Data*

##### Wood Exports by Virginia-based Companies

Year-to-date Comparison Jan. - August

Millions of US Dollars

	2006	2007	2008	%change 2008/2007
<b>World</b>	171.5	185.2	173.5	-6.32
<i>Growing Markets</i>				
Canada	34.3	37.1	37.5	+1.05
China	28.0	27.3	30.6	+11.92
Vietnam	3.1	4.7	10.4	+118.77
UK	9.0	10.1	12.5	+23.57
H. Kong	6.2	4.9	5.0	+2.07
Indonesia	2.9	3.7	4.0	+7.02
Belgium	3.4	2.0	2.3	+12.92
Ireland	1.7	1.7	2.0	+22.77
UAE	0.3	1.0	1.7	+59.21
Australia	1.1	0.9	1.2	+37.43
Korean Rep	1.3	0.9	1.1	+28.07
Israel	0.4	0.7	1.4	+114.79
India	0.2	0.3	0.9	+211.38
<i>Slowing Markets</i>				
Italy	18.3	25.2	18.1	-28.16
Spain	16.6	15.6	11.4	-26.71
Germany	9.6	11.6	9.0	-22.27
Portugal	7.8	10.2	2.8	-72.94
Japan	4.0	2.9	2.6	-9.50
Mexico	3.0	3.6	0.9	-75.78
Malaysia	1.7	2.5	1.6	-34.64
Taiwan	4.8	4.3	1.1	-74.34

(Source: [www.worldtradestatistics.com/state](http://www.worldtradestatistics.com/state))

As the preceding data shows, it appears that Vietnam, Indonesia, India, and the Middle East are

emerging markets for Virginia wood products. We continue to research these markets, and we anticipate exhibiting at wood trade shows in Dubai, Vietnam, and Turkey in 2009. We also expect to have a group of buyers from India in Virginia sometime in early 2009.

The market for hardwood lumber in India will continue to be researched. While population, income, and demand for products made from hardwood lumber grow, much of these products may come from manufacturers in Vietnam, Indonesia, and China because of lower labor costs, proximity to market, and the need for infrastructure development in India. India is a very complex market where personnel from the Virginia Department of Agriculture and Consumer Services will continue to develop relationships and cultural understanding so that we can effectively penetrate regional India markets where profitable.

The market in Mexico has seen a precipitous decline. The American Hardwood Export Council's October 2008 Mexico market report indicates that August year over year volumes exported to this market dropped 10.16% for lumber, 16.11% for veneer, and 59% for logs. This market has been hit with devaluing of its currency against the US Dollar and large reduction in demand.

The American Hardwood Export Council's August 2008 China Market Report indicated that hardwood lumber volumes (January - June) imported to China were down 11.98% year over year. Hong Kong volumes were off 24.78%, and Taiwan volumes were off 22.96%. You can see from the previous page data that Virginia wood exporters fared much better, percentage-wise, in China and Hong Kong keeping in mind that the Virginia data is January - August (all wood products), while the AHEC national data is January - June (lumber only).

#### **Export Payment Methods, Financing, and Insurance**

Since there have been multiple reports of non-payment or product refusal/claims once landed in customers' countries, let's review international trade payment methods terms and options to insure your international transactions.

*Payment Methods:* Cash-in-Advance, Letters of Credit, Documentary Collections, and Open Account. For complete details of payment and associated risk, see web site below:

[http://www.export.gov/finance/methods\\_of\\_payment.asp](http://www.export.gov/finance/methods_of_payment.asp)

#### **Insurance and Risk Mitigation**

The U.S. Government offers U.S. companies insurance for both export transactions and for the political risk associated with overseas investments.

#### **Insure Export Transactions with the Export-Import Bank**

Ex-Im Bank's [export credit insurance policies](#) enables U.S. exporters to both finance their export activities and mitigate the risk of non-payment. The policies below enable you to offer credit to your international buyers and access working capital funds.

- The [Small Business Export Credit Insurance Policy](#) is specifically designed for small, financially viable businesses that are new to exporting, or have only occasionally exported. It can help increase an exporter's international sales by extending competitive credit terms while minimizing risks.
- The [Multi-Buyer Export Credit Insurance Policy](#) enables U.S. exporters to reduce their risk of selling on credit terms by insuring their export accounts receivable against default or non-payment. The policy can help increase international sales by extending competitive credit terms to foreign buyers while minimizing risks.
- The [Short-Term Single-Buyer Export Credit Insurance Policy](#) allows exporters to insure specific, short-term foreign receivables against loss due to commercial and specified political risks on a selective basis.
- Ex-Im Bank offers U.S. leasers the opportunity to expand their [overseas leasing](#) programs by providing comprehensive insurance for both the stream of lease payments and the fair market value of the leased products.

#### **Insure Investment Transactions with OPIC**

[Political risk insurance](#) is available to U.S. investors, contractors, exporters and financial institutions involved in international transactions. Political risk insurance can cover currency inconvertibility, expropriation and political violence, and is available for investments in new ventures, expansions of existing enterprises, privatizations and acquisitions with positive developmental benefits.

#### **Source:**

[http://www.export.gov/finance/exp\\_risk\\_mitigation.asp](http://www.export.gov/finance/exp_risk_mitigation.asp)

Contact Joel Stopha at the number or e-mail below for export credit insurance brokers that serve Virginia Forest Products exporters.

Keep in mind that with the slowing global economy and credit tightening, regular contact with international customers and continued due diligence are required to minimize your risk.

## Virginia Wine Barrel Usage Survey

The Virginia Wine industry is being surveyed on their annual usage of white oak wine barrels. With over 130 wineries now operating in Virginia, the Virginia Department of Agriculture and Consumer Services, the Virginia Department of Forestry, and the Virginia Wine Marketing Office are working to discern if there is a need and economic opportunity for a Virginia-based wine barrel cooperage. If the data indicates that there is sufficient volume, we will use the information to help recruit a cooper to establish operations in Virginia. Any company interested in producing quarter-sawn white oak staves for the tight cooperage market should contact Joel Stopha with VDACS.

## Export Trade Company

Some Virginia lumber manufacturers are exploring the development of an Export Trading Company. The Export Trade Company Act of 1992 is a federal Act of Congress that allows US companies to formally work together in export markets to negotiate sales and service contracts. There are many benefits to membership in an Export Trade Company (ETC), especially in large market such as Canada, China, and Vietnam. If you are interested in learning more about the ETC, contact Joel Stopha.

## Upcoming Events

### 2008

Dec. 11 *How to Finance your Exports and Get Paid*  
Arlington, VA - 8:30 am - 11:00 am

For more information contact:

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**Tel. (703) 235-0333**

### 2009

Jan. 17-20 Domotex Hannover, Germany Flooring show

Feb. 2-6 Trade Mission to India - *Virginia Economic Development Partnership*, For more information, contact **Diane Thomas**, International Trade Manager at (276) 623 -1536.

[DThomas@yesvirginia.org](mailto:DThomas@yesvirginia.org)

Feb. 13-16 Delhiwood New Delhi, India Woodworking show.

Feb. 17-20 FurniTek China 2009, Shanghai, China  
Furniture supplier show

2-5 Apr Panelexpo New Delhi, India Wood/machinery show

**21-23 April Dubai Wood Show Dubai, UAE Wood show - VDACS will exhibit with the Hardwood States Export Group**

**13-19 May Interzum Cologne, Germany Suppliers to the international furniture industry - VDACS will exhibit at USA Pavilion**

18-22 May Ligna Hannover, Germany Woodworking show

**November 2009 - Intermob Istanbul 2009 - Turkey - VDACS will exhibit with the Hardwood States Export Group**

If your company is interested in exhibiting at any of these shows, contact Joel Stopha for further information.

For more information about this newsletter, please contact:

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