

Is this the end for thin-panel tropical plywood?

New regulations in importing markets are adding to the woes of tropical timber plywood producers

by Mike Adams

ITTO Secretariat
Yokohama

GIVEN all their problems, the last thing tropical plywood exporters need is a new hurdle to market access—but that is just what they've got. In two of the major markets for tropical plywood, Japan and the European Union (EU), new and stricter standards on formaldehyde emission levels have been introduced for imported plywood. Mills will have to modify production processes as well as pay for external, third-party checking and this will increase the cost of plywood production.

Coming as this new hurdle does at a time when market prices for commodity plywood are still extremely weak, the prospects for tropical hardwood plywood are not good. In fact, at the end of May 2003, prices were still at only 50–60% of those recorded before the crisis in Asia in 1997–98; the figure shows the doldrums in which plywood prices have dwelled since 1997.

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Minor recoveries over the period have been thwarted. After what appeared to be the beginning of a recovery in 2000, free-on-board (FOB) plywood prices retreated during 2001 through to mid 2002 when, following improving prices for Southeast Asian plywood, Brazilian producers announced price increases. In Europe, buyers jumped to secure stocks before prices went up further. This situation was mirrored in Japan where the buying momentum was spurred by a stronger yen, which made imports cheaper. The net result of the exuberant buying was overstocking. In these circumstances the only way for suppliers to advance sales was through discounts—so market prices slipped again. In recent months Brazilian plywood exporters have reduced prices considerably, widening the price differential between Brazilian and Southeast Asian hardwood plywood from its average of just over 10% to nearer 30–35%.

At the Annual Market Discussion in Panama last May (see page 20), Tan Seng Hock of Malaysia and Lamon Rutten of the United Nations Centre for Trade and Development (UNCTAD) presented early data from an ITTO study on the causes of market fluctuations and price instability in the tropical hardwood sector (the final report will be available in November 2003). They showed that the tropical plywood industry is going through major changes in most producer and consumer countries; Brazil, Malaysia, Indonesia, China and Japan have all seen upheavals in recent years, and in China and Indonesia further rapid change is anticipated. A large number of plywood mills in many countries have closed down in recent years; despite this, however, those that have survived are operating at very low levels of capacity utilisation—around 50% in the Asian plywood sector as a whole, 58% in Africa, and 65% in South America.

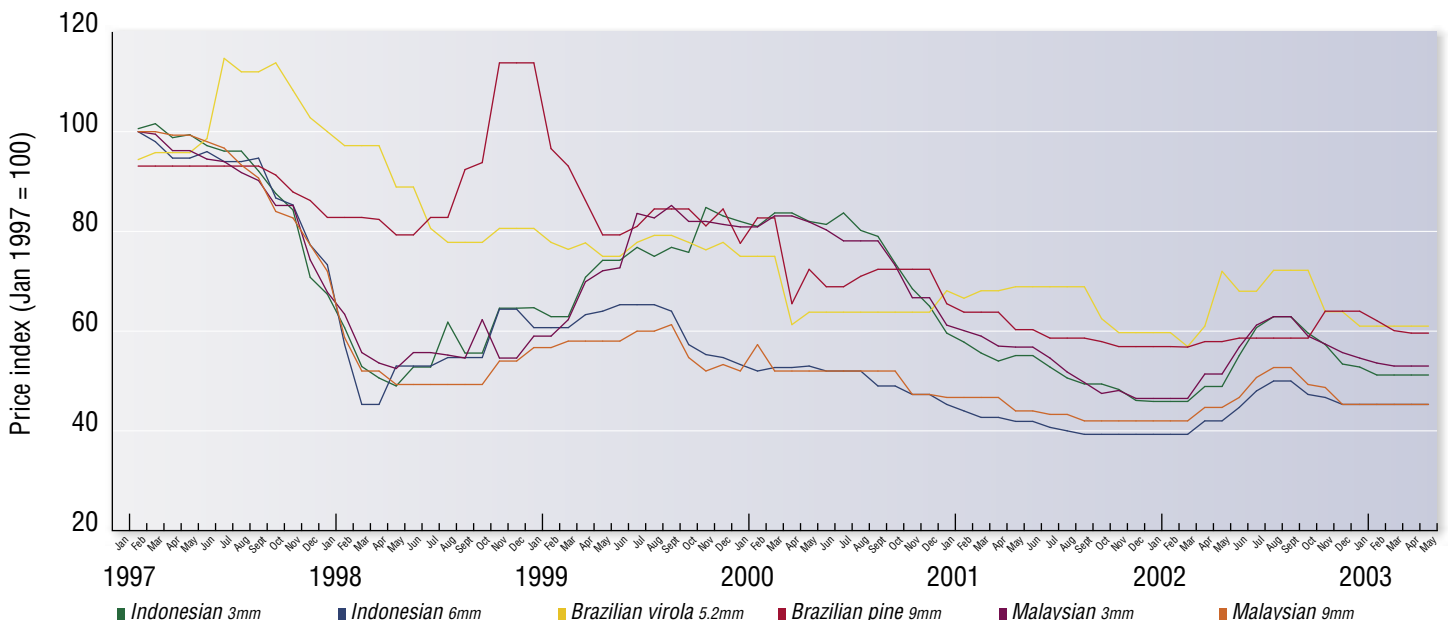
In Malaysia, capacity utilisation is said to be only 40% and, while the numbers are difficult to confirm, the situation may be even worse in Indonesia, where log shortages rather than weakness in demand are the main issue. Quite a few plywood mills, especially in Indonesia, have severe cash flow constraints; consequently, their marketing and processing operations are now driven by cash flow needs rather than profit optimisation and the international markets are taking advantage of this by capping moves to improve prices.

Tan and Rutten have produced preliminary data (see table) showing the change in wood-based panel production between 1992 and 2001. Tropical plywood production fell by just over 17%—in stark contrast to strong growth in production in temperate species' plywood, medium density fibreboard (MDF) and particleboards (including oriented strand board (OSB)).

According to responses to a questionnaire issued by Tan and Rutten, market players see poor price transparency and

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Tropical plywood FOB prices, 1997–2003



Performing panels

World production of wood-based panels (million m³)

Panel type	1992	2001
Tropical plywood	23	19 ↓
Other plywood	25	36 ↑
MDF	na	19 ↑
Particle board (including OSB)	49	83 ↑

Source: ITTO study on the causes of market fluctuations and price instability in the tropical hardwood sector (in prep—available November 2003)

price fluctuations as key problems for tropical plywood and identified market price risk exposure as the key variable affecting company performance—more important than sales volume, raw material costs, labour costs or capital costs.

The lingering influence of weak market demand is continuing to limit the opportunities for producers to increase prices and this situation is made even more difficult by the recent appearance of low-priced, Chinese-manufactured tropical plywood in the European and Japanese markets. China is importing huge quantities of tropical logs and its newly established high-tech plymills can take advantage of low production costs to produce a very competitively priced combi-ply—comprising a tropical hardwood outer veneer over several layers of low-density timber of either softwood or poplar.

Falling imports in Japan

Japan's Forestry Agency has released its latest projections for demand in 2003. It predicts that total plywood demand will fall to 12.9 million m³ and plywood imports to 7.2 million m³; if the forecast is accurate, 2003 will be the third consecutive year of decline in both plywood demand and imports. Against this background, a recently concluded plywood conference involving the Japan Lumber Importers' Association, the Japan Federation of Plywood Manufacturers Associations, the Indonesian Plywood Association (APKINDO) and the Malaysian Panel Manufacturers' Association agreed that plywood exports to Japan in 2003 would not fall below 7 million m³. Indonesia is likely to supply 150 000 m³ less than last year because of the significant reduction in the annual allowable timber harvest in that country. To help address this, Malaysia's exports and Japan's domestic production will both increase by 50 000 m³.

These volumes have been set on the assumption that the plywood mills in Malaysia and Indonesia can meet the new plywood standards. Malaysian mills are reporting progress in acquiring the necessary certification under the Japan Standards Association, so their target is set close to last year's shipments of 1.76 million m³. However, because it is thought that Indonesian mills are yet to adjust production to meet the new standards, with only two mills being certified as of May 2003, their exports to Japan will likely fall below the agreed target.

According to ITTO's *Annual review and assessment of the world timber situation* (now available from itto-stats@itto.or.jp or www.itto.or.jp/inside/review2002/), tropical wood product imports to Europe declined in 2002. Plywood imports fell about 10%, with Indonesia and Malaysia seeing significant declines in their exports to the EU, although because of the weak *real* and through aggressive pricing Brazil managed to achieve a modest increase. Prospects for plywood demand in Europe in 2003 are not very encouraging, with most economies expected to post only moderate growth rates; in Germany and probably in Holland there is a danger of negative growth. The recent strengthening of the euro against the dollar, the currency of preference in the international plywood trade, may give a slight boost to plywood imports. However, on past evidence it could well be that any increase in demand will be snapped up by low-priced hardwood plywood manufactured in China rather than translating into better opportunities for tropical producers.

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Conclusion

The tropical plywood industry is under serious threat from falling prices, weak demand, Chinese production based on imported logs, problems of log availability and stiff competition from other wood-based panels. Those manufacturers who have managed to retool to produce higher-value panels have been weathering the market downturn with the least pain, but for tropical commodity plywood manufacturers the good days may be over.

Recent trends in production and in the international trade suggest we may be witnessing the end of the line for the thin-panel tropical commodity plywood sector. With the availability of tropical logs declining in some countries and with falling export prices, it is becoming increasingly difficult to profitably produce thin ply requiring a good-quality face and back veneer to sandwich a single, low-grade core.