

# Japan: the slumbering giant

**While growth in the Chinese timber sector captures the headlines, Japan is still a major player**

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TALK TO ANYONE about today's trends in the timber sector and inevitably the conversation will turn towards the impact of Chinese imports and exports of wood products on global trade. With total imports of logs, sawnwood, veneer and plywood running at around us\$8 billion annually and double-digit annual growth in the import, export and consumption of wood products for the past ten years, this is not surprising.

Amid all the hype about China it is easy to forget the giant economy to the east. Japan may no longer the darling of the timber-trade media but it is still a massive importer of wood products.

The Japanese market is extremely diversified and open to both raw materials and manufactured wood products. If an exporter can meet the exacting standards of the Japanese market, prices are good and, provided that quality and delivery standards are maintained, the market is loyal.

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Current timber imports by Japan from ITTO (producer and consumer) member countries are around us\$6 billion annually, a close second to imports by China. And, even for



**Important imports:** unloading shipping containers at Yokohama port, Japan. Photo: M. Adams

primary products (logs, sawnwood, veneer and plywood), Japan is still importing a higher proportion of tropical timbers (31%) than China (27%; ITTO 2004).

## Projections of demand

In January 2005 the Japan South Sea Sawnwood Conference (SEA), which comprises the Japan Sawnwood Importers Association, the Japan North American Sawnwood Conference and the New Zealand Sawmillers Conference of Japan, reviewed demand for imported wood products in Japan in 2004 and made projections for 2005. It concluded that demand for imported logs and sawnwood in 2004 was up around 3% compared to 2003.

For 2004, demand for wood products increased as housing starts in Japan grew. Total housing starts in 2004 were reported at 1.19 million units, an increase of 2.5% on 2003.

Japanese builders reported that demand for housing was strong in 2004 as the Japanese economy improved and because of continuing tax breaks on housing loan interest (see *TFU* 14/4 page 19). The driving force for 2004 starts was 'built for sale' units, particularly for detached units in suburban areas. Some 345,000 of these units were manufactured in 2004, an increase of nearly 6% over 2003. In contrast, individual, owner-built unit sales declined by almost 1% to 369,852, while the construction of rental units increased by 3%.

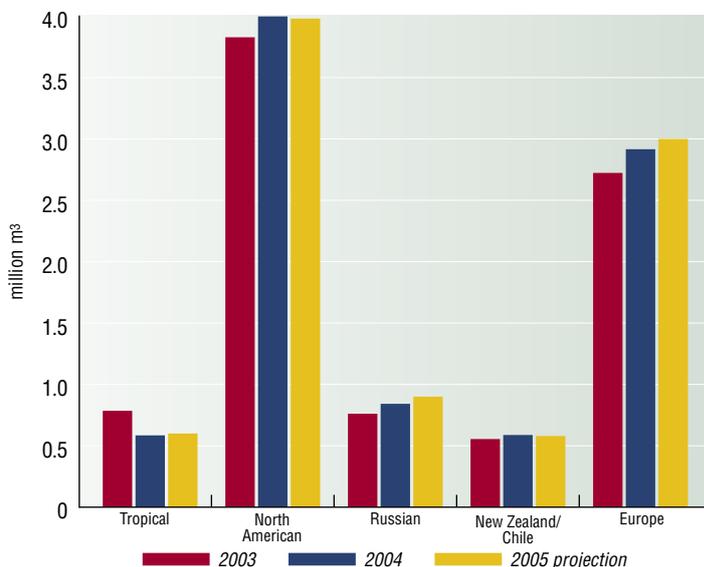
## Log imports

Japan's total log imports in 2004 were in the region of 12 million m<sup>3</sup>, an increase of just under 3% over 2003. In 2005, log imports are forecast to drop back to 2003 levels.

At around 1.6 million m<sup>3</sup>, tropical logs make up 13% of the country's total log imports, mainly from Malaysia, Papua New Guinea and the Solomon Islands; by species, meranti

## Increase in sawnwood imports

**Figure 1:** Japan's actual 2003 and 2004 and predicted 2005 sawnwood import volumes, by region



and mixed light hardwoods dominate. African log suppliers once had a small but important market share but in recent years strong Chinese demand for African logs has pushed aside the Japanese importers.

### **Russian log demand**

Demand for Russian logs climbed by 800 000 m<sup>3</sup> in 2004, especially for plywood production, a 10% increase on 2003. However, SEA forecasts that Russian log imports will fall by 370 000 m<sup>3</sup> in 2005.

This forecast decline is partly attributable to changes in requirements for ships docking at Japanese ports. Last year, several foreign-registered ships, including Russian log-carriers, ran aground in Japanese territorial waters and caused oil spills. Japan's Transport Ministry has announced that from March 2005 all vessels calling at Japanese ports must carry protection and indemnity insurance. This is the ship owners' insurance to cover liabilities and expenses the event of any mishap such as the loss of the ship, damage to port and marine facilities and oil and chemical spills. The Japanese trade press suggests that some Russian-registered log-carrying vessels are so old that insurance companies may decline to cover them. As a result, log arrivals after March may decline or freight costs may go up due to a limited availability of insured vessels.

Estimates by SEA of Japan's total North America log imports for 2004 are in the region of 3.6 million m<sup>3</sup>, some 2% down on 2003.

### **Sawnwood imports**

Figure 1 shows that the bulk of Japan's sawnwood imports comes from North America and Europe; imported tropical sawnwood represents just 6.5% of the total imports by Japan. SEA predicts that demand for sawnwood in Japan will increase in 2005; total sawnwood demand in 2004 was up 3.2% compared to 2003. Much of this increase was due to an increase in 2x4 housing starts in 2004, which were the second highest in history. Also, heavy inventory replenishing purchases in early 2004, after critical inventory shortage in late 2003 and early 2004 pushed imports up.

Sawnwood imports are likely to increase a further 1.5% in 2005. The increases are likely to come from Russia, Europe and tropical countries, while imports from North America, New Zealand and Chile could be slightly down.

Japan's sawnwood imports from Russia continue to grow and to set new records; in 2004 sawnwood imports from Russia were the highest ever recorded. Moreover, the proportion of kiln-dry imports is increasing due, say analysts, to low energy costs in Russia.

Total imports of North American sawnwood were close to 4 million m<sup>3</sup> in 2004, 4.4% more than in 2003. The majority was for 2x4 house construction.

### **Plywood market in 2004**

Japan's total 2004 consumption of plywood from domestic and import sources was around 8.1 million m<sup>3</sup>, 6.7% higher than 2003 and the first time in four years that consumption exceeded eight million m<sup>3</sup>. Imports were 4.9 million m<sup>3</sup>, 8% more than in 2003, while domestic production was up 4.9% to 3.2 million m<sup>3</sup>. These increases can be attributed to the increased building activity noted earlier.

The domestic production of plywood increased as manufacturers expanded production lines for structural panels and panels made of domestic timbers. Manufacturers of softwood panels also increased the production of thicker panels.

Imports of plywood increased in 2004 as more overseas manufacturers became JAS [Japan Agricultural Standards]-certified and because domestic panel prices rose giving importers confidence to buy larger quantities. By source, 2.4 million m<sup>3</sup> came from Indonesia, up 8.1% over 2003, and an additional 2.0 million m<sup>3</sup> came from Malaysia, up 7.9%. A further 334,000 m<sup>3</sup> were imported from China, 22.3% more than in 2003.

The total domestic production of softwood plywood was 2.0 million m<sup>3</sup>, 14.6% more than in 2003, of which panels thicker than 12 mm made up some 1.85 million m<sup>3</sup>, up 16%. Overall, the share of softwood panels in Japanese domestic production increased 5.8% to almost 68% in 2004.

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### **And what lies ahead**

The economic news out of Japan is still not very encouraging. The modest recovery reported over recent months has relied on exporters, whereas it is Japanese private consumption that is the stronger economic driving force in Japan. At the moment, Japanese consumers are keeping their hands in their pockets and their money in savings. The official government stance in March 2005 was that the economy is recovering at a moderate pace.

On the corporate front, profits are improving and business investment has shown signs of increasing moderately but private consumption is still flat. The folks on the street in Japan are acutely aware of the fragile employment situation and, while there has been a slight drop in the unemployment rate, it is still at levels never before seen in post-war Japan.

Government analysts say that short-term economic prospects remain solid and that if the recovery in the world economy is sustained the corporate sector will remain the cornerstone of any growth. Of considerable concern, given its potential to derail the positive trend, is the recent surge in oil prices—this will increase raw-material import costs and domestic production costs across the board.

### **Reference**

ITTO 2004. *Annual review and assessment of the world timber situation*. ITTO, Yokohama, Japan.