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SADC Trade

TRADE INFORMATION BRIEF

WOOD AND WOOD PRODUCTS

TIPS

TRADE & INDUSTRIAL POLICY STRATEGIES

Australian Government

AusAID

Participation in international trade has become one of the most important factors in increasing the prosperity of countries. Yet for many developing countries, perhaps particularly for those in Sub-Saharan Africa (SSA), trade is viewed primarily from a defensive perspective, with a focus on the disruptive effects of imports rather than on the opportunities presented by increased access to world markets. A key reason is the existence of information market gaps that are often associated with trade facilitation and development in developing countries – information on the export performance and potential of many developing countries remains incomplete.

The TRADE INFORMATION SERVICE series of market briefs aims to contribute to bridging this information gap for existing producers in the Southern African Development Community (SADC) who may not have the financial resources to generate a fully fledged market research process. The briefs are not intended to act as the detailed export market intelligence that successful exporting requires, but rather as a basic first-cut analysis of export prospects, to allow enterprises to make the decision on whether to initiate further market research.

Each Trade Information Brief will cover a product cluster of particular interest to members of SADC. The cluster may represent an existing key set of export products with potential for expansion, or a relatively new set where there is an indication of competitive advantage for the region.

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1. Introduction

The Southern African Development Community (SADC) region in general specialises in raw commodities, which are subject to international commodity prices. Of course, these commodities need to be marketed as effectively as possible so that they can benefit SADC countries as foreign exchange earners.

Forests provide a range of wood and non-wood[1] products, as well as social and environmental services, such as the conservation of soil, water and biological diversity. Wood and wood products as the main commercial products of forests include fuel wood and charcoal (particularly important in developing countries), industrial round wood, sawn wood, wood-based panels, wood pulp, paper and paperboard, and wooden articles.

The abundance of raw material resources in SADC countries makes the wood industry important to the region's economic development. Besides providing employment in the sawmilling and furniture manufacturing industries, wood also provides building materials to the local construction industry and contributes to the growth of non-traditional exports through increased exports of wood products.

SADC encompasses a large and diverse forest area, including both tropical and temperate forest cover. Wood products in SADC come from two sources – indigenous forests and industrial plantations. In SADC countries, plantation forestry provides most of the raw material for downstream activities, such as pulp milling, paper manufacturing, sawmilling and some furniture manufacturing.

Much of the harvested wood is consumed by households as fuelwood and charcoal, although SADC does produce a substantial amount of industrial roundwood. However, trade is largely dominated by South Africa.

For this reason and since only scant information is available on SADC's forestry sector, South Africa has been used as a proxy for SADC in much of this report. In addition, most SADC countries rely on South Africa to provide expertise on identifying wood standards. For example, the majority of SADC countries consult the South African Bureau of Standards (SABS) to meet international standards on wood exports.

This Trade Information Brief provides an overview of the major international markets for wood and wood-based products, trade barriers facing exports and the nature of the distribution channels.

[1] Non-wood products include food items such as honey, nuts, berries, mushrooms and leaf fodder for animals, construction materials (including rattan and palm leaves), medicinal plants, other health care and cosmetic products, and items of cultural and spiritual significance. (Twarog, 2001).

References

A full set of references for this report can be found at www.sadctrade.org/TIB/Wood.

2. Product description

2.1 Basic description

This brief covers wood-based products categorised according to the Harmonised System (HS), an international method for classifying products for trading purposes. The products covered in the cluster are:

HS code 4401	Firewood, in the form of logs
HS code 4402	Wood charcoal
HS code 4403	Wood in the rough
HS code 4404	Hoopwood, split poles
HS code 4405	Wood wool, wood flour, i.e. wood powder able to pass through a fine (0.63mm mesh) sieve with a residue of =< 8% by weight
HS code 4406	Railway sleepers of wood
HS code 4407	Sawn wood
HS code 4408	Veneer sheets, sheets for plywood
HS code 4409	Blocks, strips and friezes for parquet flooring
HS code 4410	Particle board and similar board of wood
HS code 4411	Fibreboard of wood or other ligneous materials
HS code 4412	Plywood, veneered wood and similar laminated wood
HS code 4418	Joinery and carpentry, including hollow-core composite panels and parquest panels

Plantation forestry

The products described in this Brief come from plantation forestry. Both softwood and hardwood can be used for pulping purposes, but they are used in different processes and for different types of outputs. As far as plantation forestry is concerned, annual hardwood production outstrips that of softwood because of its shorter rotation and higher yield. Saw logs are long rotation softwood, while pulpwood is produced from short rotation softwood or hardwood plantations.

Wood chip

Wood chipping is the first stage of processing in both mechanical and chemical pulping, but also exists in a separate capacity for the export market. Due to pulp and paper mills' large capital requirements, the wood resources (plantations) are established first, followed by some beneficiation through chipping for export. The major inputs into the chipping process are timber, electricity and machinery. In terms of produc-

tion, non-timber inputs include labour, sawmilling machinery, electricity and water. Whereas South Africa imports the specialised equipment used in sawmills but maintenance takes place locally, maintenance of other SADC countries' imported equipment also takes place in South Africa, due to a lack of these particular skills in those countries.

Sawmilling

The sawmilling segment is geared towards the manufacture of sawn timber, which is used in the production of solid wood products such as lumber timber for construction purposes (roof timbers, flooring, etc.) and consumer products (for example, furniture). The timber is grown on specialised saw log plantations, with the main species being pine (96%) and eucalyptus (3.7%). While timber from pine has a variety of uses – from sawn timber for furniture to industrial products such as crates – eucalyptus is mainly used for outdoor furniture.

The outputs from sawmills are a number of categories of sawn timber, which can be subdivided into different log classes according to their dimensions. The log classes are divided according to size, with smaller log classes mainly used for furniture and larger log classes for construction. Lower quality wood is used for packaging products, such as cable drums and pallets. Sawmills further supply woodchips (from the waste generated by the sawmilling process) to pulp and paper mills.

Charcoal

Charcoal is produced when materials containing carbon, such as wood, bamboo and biogases, are partially burnt or heated while the airflow is controlled to prevent the charcoal itself from burning. Low levels of capital inputs, limited technical knowledge and unskilled labour requirements enable charcoal to be sourced from non-commercial plantations and waste timber (most of the timber inputs are obtained from non-commercial lots of alien hardwoods suitable for production purposes, such as wattle jungle and other infested areas). Charcoal can also be made from sawmilling byproduct. Only a small proportion of timber is obtained from commercial plantations.

In addition, non-timber inputs can substitute for wood in charcoal production, since any material that contains carbon can theoretically be used – thin twigs, sawmilling waste (sawmill off-cuts and sawdust), livestock manure, nut shells, animal bones, sewage sludge and even tyres. However, the technology required to produce charcoal from these alternative inputs is more complex and more expensive.

The main industrial use of charcoal is in the production of non-ferrous metals where charcoal is used as a reduction agent.

Timber board

Timber board refers to a wide range of products that are made by compressing woodchips and other wood waste products into a condensed panel by using heat and pressure. The fibres of timber board production are received from various sources, such as sawmilling wood waste and woodchips, as well as from plantations dedicated to grow fibre for timber board manufactures. There are two main types of timber board products – particle board (also known as chipboard) and fibre board, with the latter subdivided into medium density fibreboard (MDF), insulation board and hardboard. Timber board products are well known for their versality and have numerous applications (especially in the building and furniture industry), ranging from panelling and furniture to thermal insulation in buildings and flooring.

Mining timber

The mining industry uses timber as structural supports in mines. However, new technologies such as backfilling techniques and the use of hydraulic and mechanical props and packs rather than timber props have reduced the mining industry's need for timber. In SADC, the bulk of timber that was previously used for mining purposes is now exported as woodchips. Although the industry is declining, waste products from mining timber mills may still represent a source of inputs for related industries such as charcoal and pallet producers. The mechanical processes in the mining timber industry are similar to those in sawmills, but produce less waste. As far as timber inputs are concerned, only hardwood is used to produce mining timber, mainly *Eucalyptus grandis* and *Eucalyptus saligna*. Although most mining timber is obtained from large commercial plantations, some mills receive log inputs from small growers.

Treated poles

Of the round wood products, poles are one of the most important. Most poles and posts are treated to protect them against insect and fungal attack, which ensures a useful life of up to 50 years. The treated-pole market segment relies mainly on eucalyptus (60%) but less so on pine (40%), while the untreated pole segment relies mainly on pine (67%) and and less on eucalyptus (33%). Non-timber inputs into the manufacturing of these round wood products are machinery (such as drying facilities), electricity and pole preservatives such as creosote and copper chromium arsenate. Poles have a variety of uses, such as retaining walls, marina poles, telegraph poles and for building foundations and materials. Posts of a lower value round wood are used for agricultural fencing, horticultural structures and landscaping.

3. World consumption trends

Table 1: Forecast world timber supply: 2010 - 2020 (in m^3-million)

Region	1996	2010	2020
Oceana (New Zealand & Australia)	42	58	74
South America	130	158	190
North and Central America	600	503	539
Europe and the Baltics	282	330	355
Asia	252	217	288
Africa	67	66	70
Russia	67	130	160
Total supply	1,439	1,461	1,616
Forecast demand		1,801	2,100
Forecast shortfall		340	484

Source: International Forestry Report

Wood has been an important raw material for many centuries. The primary factors determining demand for wood are population and economic growth. Between 1960 and 1998, the world population doubled and the world economy grew three and a half times. Although growth in wood consumption tracked population and economic growth, per capita consumption of wood actually declined, due to changing trends in economic growth, consumption and wood processing technology.

Over the next 50 years, the world population is estimated to increase from 5.95-billion to 9.36-billion. This population growth will be mainly in developing countries where the demand for industrial wood is low and the demand for fuel wood high. Currently, an estimated 56% of all wood produced in the world is fuel (or energy) wood for cooking and heating. 44% is industrial roundwood used to make lumber, engineered wood products and paper. Since the demand for wood and competing demands on forests will increase steadily, intensive management of private forests, plantations and recovered fibre, and new technologies and processing will become more important.

Between 1980 and 1995, forestlands decreased by almost 200-million hectares in developing countries and increased by only about 20-million hectares in developed countries, resulting in a net loss of 180-million hectares. Developed countries produce and consume almost 80% of the world's industrial wood. Approximately one quarter of all industrial wood enters international trade and about 80% of both exports and imports of forest products come from developed countries. However, developing countries, notably in Asia and Latin America, are

becoming significant where trade in forest products are concerned. Since such trade is expected to increase in future, it will be necessary to offset projected wood deficits, as shown in Table 1, for example by increasing recovery and recycling of paper and paperboard and establishing private forests and plantations for wood.

Although suitable and cost-competitive substitutes for wood, made, for example from fossil fuels, are increasingly becoming available, wood's major advantage is the fact that it is environmentally friendly. On the other hand, significant forest felling aids environmental degeneration by contributing to the increase in atmospheric emissions of carbon dioxide.

The future demand for wood will be driven by global population growth, increasing living standards and wood's cost competitiveness relative to substitute products. Table 1 shows projections of wood supply and demand across the globe from 2010 to 2020. The main suppliers will clearly still be the northern hemisphere countries, followed by Asia and South America. Given the forecast demand for wood, SADC has an opportunity to increase its wood supply into world markets over this period. The forecast also gives an indication of countries and regions which might be future potential markets for SADC countries.

4. Major importing regions and countries

This section highlights total world imports of wood and basic wood products and identifies key factors that have led to an increase in such imports in major world markets. In the last quarter of 2005 and at the start of 2006, strong economic conditions, combined with effective industry and government promotion policies, drove forest products markets to record levels in the US, the EU and the Commonwealth of Independent States. Despite persistent economic slow-down in some western European countries, forest products markets were generally strong in Europe, with greater demand from non-EU 25 countries, even though on smaller volumes.

4.1 Imports by region

The analysis in Table 2 shows that the EU was the leading importing region of wood and articles of wood in 2004, followed by NAFTA, East Asia, Africa and Mercosur. The analysis below highlights the key factors determining wood consumption in each of these regions.

Economic prospects for 2006 were expected to improve around the globe, compared to conditions that existed from 2001 and 2002. The increase in wood and articles of wood imports into the EU, shown in Table 2 has been influenced mainly by the strong economic growth in 2004. The growth is forecast to accelerate from an average of 1.3% to 2.5% in 2007. However, the increased wood consumption in this market may not be sustainable, given the economic problems that are facing Germany, the biggest economy in the region. With this country's economy struggling, the near-term prospects for Western Europe are not that good. In contrast, the economies of Eastern Europe seem to be doing fairly well and are forecast to continue to achieve good performance during the 2006 to 2007 period.

Despite the fact that structural reforms aimed at shifting these economies toward a more market-orientated system have not been without problems, the results so far have been increased investment and stronger overall performance. The front-runner in Eastern Europe is likely be Russia, whose economy is growing at a rapid rate. Hence the demand for wood and wood products imports into Eastern Europe is set to increase if the current economic growth rates are maintained.

The NAFTA region is another important market, significant largely because of the size of the US market. The region seems to be a sustainable market for wood and basic wood products, depending, however, on the economic performance of the US economy. The US economy has recovered from the effects of the end of the information technology boom, and low interest rate growth saw the US economy increasing its growth rate to about 4% in 2004. Economic growth should receive support from fiscal stimulus, stronger gains in business investment, firmer

Table 2: Top importing regions of wood and articles of wood (US$-million)

Regions	1996	1997	1998	1999	2000	2001	2002	2003	2004	Annual growth, '00-'04 (%)	Annual growth, '03-'04 (%)
EU15	21,298	22,154	22,422	22,453	21,440	20,450	21,487	25,906	30,319	9	17
EU10	800	1,046	1,255	1,252	1,340	1,420	1,716	2,235	2,975	22	33
NAFTA	12,546	13,994	14,250	17,071	16,707	16,195	17,100	18,135	25,279	11	39
East Asia	19,385	19,171,	11,687	14,750	17,182	15,164	15,510	16,598	18,913	2	14
Africa	195	439	392	406	590	597	833	1,143	1,103	17	-3
Mercosur	102	279	284	203	188	145	65	94	149	-6	58

Source: UN Conference on Trade and Development (UNCTAD) World Integrated Trade Solution (WITS) and own calculations

job creation, acceleration in consumer spending and the faster pace of inventory rebuilding. The demand for wood products will be boosted further by the strong Canadian economy, which is supported by an under-valued currency, low interest rates and a booming housing market. Economic growth in this country is expected to ease towards its longer-term potential rate of 3.2% by 2007.

Wood consumption in East Asia is rising and it seems as if future demand will continue apace, if not increase. This will be sustainable in the near term due to Japan's economic recovery, which should fuel an increase in residential construction and furniture production. In addition, the booming Chinese economy will reinforce sustainability on wood products consumption in the long term, provided that current growth rates are maintained.

Most of the wood products exported to East Asia are high-quality kiln-dried and laminated products. In the long term, particularly in the case of Japan, the demand for wood products will increase due to rising wood consumption in the housing construction and furniture industries, and will therefore continue to provide opportunities for expanding exports of higher value wood products. Significant changes in Japan's housing construction and remodelling sectors over the past decade have created an increased demand for stable wood-building materials and Western-style building products. Understanding these changes is critical to enable exporters to take full advantage of changing opportunities in the Japanese wood products market. Key factors that will drive Japanese demand for wood and wood products in future are changing demographics and a changing regulatory environment.

Wood consumption in China is driven by the booming economy and an increase in personal incomes. Residential projects that feature western-style houses with wood frame construction based on North American construction practices are becoming increasingly popular. For many of these projects, southern yellow pine is the wood of choice, of which the US is currently the main exporter.

4.2 Imports by country

Table 3 shows that for the period 1996 to 2004, the US, Japan and the UK, Germany and Italy were the dominant markets for imports of basic wood and wood products, with China increasing its imports to the point where it became the top third importing country in 2004.

The US is clearly the engine for demand in forest products, both primary and secondary. The housing market in the US reached record levels during the period under review due to continued low interest rates, income growth, improving labour markets and strong demographics (population stability and an increasing proportion of elderly persons). This boom saw 95% of housing construction being wood-based. Other important factors that contributed to high demand for wood in the US were energy promotion policies and high oil prices, which resulted in more wood being consumed for energy. Biomass as an energy source has gained considerable interest recently for several reasons, including the dramatic rise in oil prices – a favourable development for the promotion of renewable energy sources, including wood-based fuels in the US.

In Europe, the sawn hardwood sector in particular strengthened due to increased housing construction, while wood products consumption in general was also fuelled by increased oil prices. The furniture industry is another sector which increased its wood and wood products imports. The European furniture industry sources its wood imports mainly from other EU countries, the US and Canada, and to a lesser extent from East Asian countries.

In Asia, China and Japan's imports of temperate and tropical wood increased over the period under review. Wood use in Japan stems mainly from residential construction, which rivals the US market in terms of number of houses being built. The type of construction that dominates the Japanese markets is post-and-beam (timber frame) type, but markets for North American-style platform-frame construction are steadily growing. In addition, the demand for structural wood products in Japan is driven by the growing importance of high-performance and engineered wood products and the emergence of a pre-cut component manufacturing sector. Moreover, Japanese tastes are shifting towards the use of lighter coloured softwoods and western styles, which have introduced changes in the markets for non-structural wood products for interior applications. Changing demographics (population stability and an increasing proportion of elderly persons) are also having an impact on the use of wood and wood products in this country.

Changing (more stringent) government requirements regarding wood use for housing construction, including Government Housing and Loan Corporation, Building Standard and Housing Quality Assurance laws, are further determinants of wood demand in Japan. These re-

Table 3: Top 20 importing countries of wood and articles of wood (US$-million)

Importers	1996	1997	1998	1999	2000	2001	2002	2003	2004	Annual growth, '00-'04 (%)	Annual growth, '03-'04 (%)
US	10,968	12,0.35	12,248	14,825	14,069	13,716	14,339	15,149	21,726	11	43
Japan	15,365	14,526	8,667	10,271	10,662	9,226	8,604	9,213	10,591	0	15
China	1,512	1,902	1,892	2,858	3,659	3,443	4,116	4,606	5,167	9	12
UK	3,206	3,527	3,074	3,271	3,314	3,162	3,636	4,230	4,928	10	17
Italy	3,163	3,108	3,277	3,330	3,231	2,954	3,176	3,814	4,317	8	13
Germany	4,570	4,506	4,628	4,285	3,591	3,211	3,080	3,598	4,260	4	18
France	1,825	1,823	1,920	1,939	1,986	1,894	1,937	2,398	2,831	9	18
Canada	1,265	1,589	1,548	1,719	1,908	1,742	1,938	2,125	2,496	7	18
Spain	1,174	1,267	1,452	1,608	1,568	1,628	1,676	2,136	2,417	11	17
The Netherlands	1,919	1,845	1,590	1,731	1,662	1,472	1,487	1,774	2,123	6	13
Belgium	-	-	-	1,459	1,494	1,358	1,343	1,630	1,929	7	20
Korea, Rep.	2,508	2,317	885	1,365	1,518	1,516	1,760	1,701	1,797	4	18
Austria	1,155	1,118	1,149	1,310	1,192	1,097	1,127	1,373	1,627	8	6
Denmark	853	1,062	1,083	1,063	999	937	1,015	1,264	1,449	10	18
Sweden	704	794	918	516	543	886	940	1,166	1,404	27	15
Finland	448	461	584	586	558	635	708	896	1,085	18	20
Norway	719	762	789	698	701	695	734	875	1,001	9	21
Switzerland	775	684	749	740	668	629	658	820	963	10	14
Australia	453	485	436	487	633	351	486	623	719	3	17
Hong Kong. China	1,142	1,440	1,254	1,205	1,114	903	843	718	636	-13	15

Source: UNCTAD WITS and own calculations

quirements could affect future wood import trends slightly negatively, as exporters will find it increasingly difficult to meet these complex requirements and access the Japanese wood markets. Particularly SADC countries (excluding perhaps South Africa) will be hard pressed to meet such stringent import regulations.

Increased production of furniture in Japan has led to a rise in wood consumption in the manufacturing sector, which has presented more market opportunities for overseas producers of wood products. During the period under review, Japan sourced some of its imports of sawn wood from the EU, but its greatest increase in imports was from Russia. However, Japan's imports of sawn wood still mainly come from the Southeast and East Asian countries.

During the past decade, China has emerged as one of the modern world's greatest economic success stories. Since the adoption of economic openness, China has become the world's third leading trading economy and the world's sixth largest economy, with a GDP of

US$1.4-trillion in 2005. China's trade in wood products has increased significantly recently, and as a result the country now dominates the tropical timber trade and has moved increasingly to production of primary and secondary processed products based on imported logs. The increase in Chinese wood imports is largey to a housing construction boom, since good economic growth has led to increased consumer demand for larger and better quality homes with modern amenities. Privatisation also stimulated demand for interior finishing services, furniture, appliances and other complimentary goods and services. In addition, China has become the world leading manufacturer of wood furniture, flooring, doors and an array of non-wood building materials.

To feed its construction and manufacturing industries, China imported about US$5.2bn worth of wood products in 2004 (see Table 3). The sustainability of wood and wood products demand will depend on prevailing strong economic performance in the major markets, future global competition, the need for high performance of wood products and distribution systems, and growth in the repair and remodelling market.

4.2.1 The EU

The importance of the EU as an importer of wood and articles of wood cannot be over-emphasised. Economic growth in the EU region has been low for some time, though there are some significant differences between countries. However, the European economy entered 2007 on a solid footing with data released by the EU's statistics office showing growth coming in at a higher-than-previously estimated 3.5% during the fourth quarter of 2006. The year-on-year quarterly growth figure for the 27-member EU consequently outpaced both the US and Japan.

Table 4 shows that the major exporter of wood and articles of wood to the EU for the period under review was Germany, followed by the UK, Italy, France and the Netherlands. Outside the region, the US and Japan are major exporters of wood and articles of wood to the EU. This market offers good export opportunities because of stable housing and commercial construction, a growing furniture industry and an increase in private consumption of wood products. However, construction activity is likely to decline in future as housing construction is expected to weaken and public finances constraints place a brake on infrastructure projects. The building sector should benefit, however, from an increase in commercial construction. SADC countries will be in a position to increase their exports to this market if they improve the quality of their wood products and are able to adhere to the region's import requirements, such as providing certificates of origin (the EU places great emphasis on ensuring that it does not import endangered forest species).

Table 4: Top 20 exporting countries to the EU (US$-million)

Countries	1996	1997	1998	1999	2000	2001	2002	2003	2004	Annual growth, '00-'04 (%)	Annual growth, '03-'04 (%)
Germany	3,982	3,422	3,833	3,341	2,848	2,588	2,597	3,158	3,591	6	14
UK	1,743	2,023	2,074	1,657	1,645	2,150	2,396	2,973	3,432	20	15
Italy	1,648	1,649	1,752	1,782	1,718	1,709	1,972	2,465	2,923	14	19
France	1,150	1,094	1,166	1,163	1,149	1,275	1,359	1,686	2,104	16	25
The Netherlands	1,404	1,539	1,561	1,389	1,281	1,327	1,337	1,543	1,766	8	14
US	208	252	393	477	586	760	1,068	1,156	1,620	29	40
Spain	604	639	769	751	765	854	973	1,303	1,528	19	17
Austria	897	698	941	979	823	870	922	1,093	1,307	12	20
Japan	543	566	369	540	626	747	875	1,003	1,146	16	14
Belgium	0	0	0	772	723	739	812	965	1,108	11	15
Denmark	750	814	807	573	525	681	781	988	1,098	20	11
Sweden	319	363	508	484	506	489	541	662	882	15	33
Switzerland	665	591	653	650	588	556	586	750	876	10	17
Norway	550	530	569	341	292	506	565	685	795	28	16
Ireland	204	247	290	330	362	367	421	576	738	19	28
Canada	23	29	34	46	97	111	179	210	224	23	7
Finland	75	82	112	103	99	112	122	162	203	20	25
China	20	61	163	315	476	346	250	217	197	-20	-9
Korea, Rep	64	44	29	37	48	75	135	89	101	20	14
Hong Kong, China	83	169	268	305	211	135	82	56	52	-30	-7

Source: UNCTAD WITS and own calculations

However, more investment is needed in machinery used in the forest sector in SADC countries to enable them to export significant amounts of wood and basic wood products. Potential exporters should also keep in mind that although the EU market is large, it is not growing fast.

4.2.2 NAFTA

Where NAFTA is concerned, the US dominates exports to this region, followed by Japan, Canada, certain EU countries and the UK, and some East Asian countries (see Table 5). This market offers some opportunities for wood exporters due to a strong housing construction market and furniture industry and an increase in private consumption of wood products. Wood exports to this region could increase in the medium term because of a rising demand for housing construction after Hurricane Katrina devastated the Gulf coast. More houses are also being built because of an influx of immigrants, notably from China and Mexico, entering the US labour markets. One potential problem, however, is that the housing market in general might decline as interest

Table 5: Top 20 exporting countries to NAFTA (US$-million)

Countries	1996	1997	1998	1999	2000	2001	2002	2003	2004	Annual growth, '00-'04 (%)	Annual growth, '03-'04 (%)
US	9,057	9,815	9,868	11,821	10,896	10,254	9,990	10,316	14,281	7	38
Japan	5,436	4,306	2,721	2,907	2,875	2,260	1,899	1,825	2,087	-8	14
Canada	1,236	1,537	1,493	1,635	1,779	1,586	1,640	1,758	1,964	3	12
Germany	386	489	352	281	277	199	167	191	207	-7	8
UK	349	392	307	289	314	248	196	204	223	-8	9
Korea, Rep	308	309	88	177	165	134	171	192	199	5	4
Italy	254	308	268	278	264	207	203	220	219	-5	-1
Spain	161	192	214	222	244	213	207	207	223	-2	8
Hong Kong, China	113	151	113	128	146	159	192	175	164	3	-7
The Netherlands	104	123	89	78	92	59	50	61	83	-3	36
France	98	95	103	98	98	71	64	60	69	-9	14
China	40	52	44	59	104	158	256	309	453	45	47
Sweden	32	39	39	38	40	46	35	35	46	4	32
Ireland	29	39	33	38	47	38	42	41	48	1	18
Denmark	26	40	37	36	34	27	25	22	25	-7	13
Norway	13	18	13	14	21	17	8	9	10	-16	12
Finland	11	18	16	15	13	11	8	8	10	-6	23
Switzerland	8	12	14	11	14	10	7	7	8	-13	12
Austria	6	5	6	7	5	6	4	5	7	9	36
Belgium	0	0	0	123	115	84	70	70	78	-9	11

Source: UNCTAD WITS and own calculations

rates rise. The furniture industry in the US has become slightly weaker than in the past, caused by stiff competition from China which is able to export cheaper furniture to the US. Canada, on the other hand, has a strong housing sector and furniture industry. For SADC countries to enter this heavily contested market, higher quality but cheaper wood products have to be supplied. In addition, improvements must be realised in forestry investment, management and skills. However, the main hindrance to SADC countries is their location – a number of competing exporters are in much closer proximity to this major market.

4.2.3 East Asia

East Asia, another important market for wood and articles of wood, is currently dominated by Malaysia, followed by the Russian Federation, Indonesia, Canada, the US and China, as shown in Table 6. This region is significant for potential exporters because of the presence of large markets such as China, Japan and South Korea, which have strong housing construction sectors and booming furniture industries.

However, at present, East Asia sources most of its imports from other Asian countries, which have an advantage above other potential exporters because of their close proximity to this market.

Table 6: Top 20 exporting countries to East Asia (US$-million)

Countries	1996	1997	1998	1999	2000	2001	2002	2003	2004	Annual growth, '00-'04 (%)	Annual growth, '03-'04 (%)
Malaysia	2,864	3,080	1,732	2,312	2,653	2,011	2,111	2,295	2,579	-1	12
Russian Federation	821	962	632	997	1,088	1,312	1,693	1,768	2,449	22	39
Indonesia	3,038	2,888	1,619	2,193	2,599	2,350	2,179	2,074	2,218	-4	7
Canada	2,590	2,432	1,441	1,771	2,003	1,613	1,484	1,564	1,813	-2	16
US	4,544	3,767	2,331	2,326	2,286	1,807	1,478	1,425	1,585	-9	11
China	609	703	449,	574	796	771	868	1,016	1,155	10	14
Australia	619	677	587	620	715	648	769	862	984	8	14
New Zealand	892	816	546	633	763	683	828	902	904	4	0
South Africa	190	210	215	216	255	268	316	399	461	16	16
Finland	171	219	146	215	253	272	299	398	460	16	16
Thailand	110	114	98	166	263	279	354	352	419	12	19
Chile	633	617	360	369	367	373	347	377	412	3	9
Sweden	160	227	113	215	258	234	256	324	347	8	7
Brazil	129	166	120	132	169	174	202	265	322	17	22
Austria	127	180	106	193	230	221	227	280	297	7	6
Papua New Guinea	455	446	158	240	252	199	213	248	269	2	9
Philippines	123	100	76	91	127	106	133	197	232	16	18
Gabon	242	281	130	197	253	241	204	229	202	-5	-12
Taiwan, China	138	142	80	84	82	70	72	92	110	8	19
Solomon Islands	114	104	33	48	41	31	41	61	99	24	63

Source: UNCTAD WITS and own calculations

5. Major exporting countries

5.1 Major exporters

This section examines the top exporters of wood and articles of wood in the world and identifies the main factors that have led these countries to be the major export drivers in world trade. Table 7 shows that for the period under review, the US was the major exporter of wood and articles of wood, followed by Japan, the UK, Germany and Italy, and China and Canada.

5.2 Supply analysis

The medium- and long-term profitability of any undertaking is ultimately determined by the end-products' supply and demand factors. Hence the profitability of investment in forestry for the 20 top exporters shown here is determined by supply and demand factors for wood and articles of wood produced and for their substitutes. The substantial increase in exports of wood and wood products in 2004 can generally be attributed to the global economic recovery which began in the second half of 2003 as the US and Asian economies provided a stimulus for growth. Although a Western Europe economic recovery was not sustainable due to economic ills facing the EU's biggest economy, Germany, the EU accession countries exhibited strong economic growth. Nevertheless, US exports of wood and wood products were almost five times than that of the top EU exporters during the period under review.

The market for wood and wood products in the EU 10 seems sustainable in the medium to long term due to an increase in investment flowing into this region from Western Europe and the fast growth of Russia's economy. Many of these countries have exceeded pre-transition levels of consumption, with large volumes of sawn wood and panels consumed at present and a positive demand outlook for wood products predicted for 2006.

As Table 7 shows, Japan was the second largest exporter of wood and articles of wood for the period 1996 to 2004. This trend is likely to continue, with signs that Japan is emerging from an economic recession of nearly a decade.

Table 7 also shows a rapid rise in exports of wood and wood products from China for the period 1996 to 2004. The country's forest market has become one of the largest in the world in terms of production, consumption and imports of wood products. China's total industrial log consumption is estimated at 50-million m^3 currently and could grow to between 90-million m^3 and 120-million m^3 by 2020.

Table 7: Top 20 exporting countries of wood and articles of wood (US$-million)

Countries	1996	1997	1998	1999	2000	2001	2002	2003	2004	Annual growth, '00-'04 (%)	Annual growth, '03-'04 (%)
US	9,841	11,613	11,837	14,892	14,114	13,927	13,697	14,373	20,483	10	43
Japan	9,128	10,246	6,276	8,244	8,707	7.774	6,753	7,231	8,268	-1	14
UK	2,335	3,028	2,980	2,627	2,604	3,039	3,335	3,970	4,674	-6	18
Germany	4,735	4,509	4,809	4,387	3,808	3,400	3,376	4,063	4,588	5	13
Italy	2,156	2,546	2,574	2,646	2,534	2,454	2,764	3,433	4,027	12	17
China	1,056	2,019	2,046	2,754	3,314	2,934	2,913	3,100	3,260	0	5
France	1,328	1,509	1,567	1,589	1,636	1,715	1,771	2,159	2,699	13	25
Canada	1,278	1,604	1,562	1,782	2,041	1,878	1,941	2,135	2,477	5	16
The Netherlands	1,684	2,097	2,014	1,918	1,867	1,790	1,799	2,090	2,403	7	15
Spain	803	940	1,125	1,161	1,210	1,290	1,416	1,812	2,120	15	17
Belgium	-	-	-	1,198	1,128	1,095	1,154	1,378	1,581	9	15
Austria	945	780	1,043	1,107	992	1,007	1,038	1,223	1,465	10	20
Denmark	840	969	957	734	684	837	945	1,183	1,339	18	13
Sweden	479	648	815	822	877	805	850	1,023	1,323	11	29
Korea, Rep	1,218	1,652	527	1,096	1,160	1,202	1,304	1,273	1,213	1	-5
Finalnd	128	410	530	583	479	564	637	832	968	19	16
Switzerland	682	621	702	1,347	1,240	1,171	614	794	927	-7	17
Norway	583	626	666	953	924	1,125	645	783	919	0	17
Taiwan, China	747	1,203	786	891	876	636	646	704	812	-2	15
Hong Kong	622	1,189	1,054	1,384	1,264	1,028	791	682	592	-17	-13

Source: UNCTAD WITS and own calculations

5.3 SADC export trends and performance

This section explains SADC's exports trends in wood and articles of wood and identifies potential markets for SADC wood exports. Table 8 shows that the bulk of SADC's wood and basic wood products are exported to East Asia, the EU, NAFTA and Mercosur.

5.3.1 SADC exports by region

The top importer of SADC's wood and wood products is the East Asia region, with China being the major market, followed by Japan. The SADC region is clearly taking advantage of the booming Chinese economy, which requires massive amounts of raw materials. China also imports wood from SADC for its expanding furniture and construction industries. The US, the EU, Japan and Canada – all major exporters – are SADC's main competitors for the vast Chinese market.

NAFTA is another key market that offers potential opportunities for SADC wood exports. Although 2006 and 2007 could see a slight decline in the US housing construction market as interest rates rise,

Table 8: SADC exports of wood and articles of wood by region (US$'000)

Regions	1996	1997	1998	1999	2000	2001	2002	2003	2004	Annual growth, '00-'04 (%)	Annual growth, '03-'04 (%)
East Asia	194,755	216,974	218,207	223,030	270,518	286,909	345,651	443,680	508,227	17	15
EU25	141,145	129,793	132,734	127,792	121,676	1113,145	135,924	159,862	192,435	12	20
NAFTA	14,949	13,075	12,639	16,018	18,734	29,628	42,289	46,442	42,345	23	-9
MERCOSUR	402	1,679	993	207	20	-	171	336	190	75	-43

Source: UNCTAD WITS and own calculations

rebuilding due to the devastation of Hurricane Katrina could stimulate demand. However, SADC potentially faces stiff competition from Canada and Mexico, which export high-quality wood into this market and are situated much closer to the NAFTA region, with the resultant lower transport and logistics costs. Mercosur does not appear to be absorbing much of SADC's current wood exports.

5.3.2 SADC exports by country

Table 9 shows SADC's wood exports by country and annual growth rates for regions importing SADC's wood and wood products. South Africa clearly dominates the region in terms of exports to all the major markets – the EU, NAFTA and East Asia. Mozambique, Tanzania and Madagascar show some export potential although they still lag behind South Africa. SADC's wood exports to East Asia and NAFTA seem sustainable due to these regions' strong housing construction and furniture industries; however, the long-term outlook for the EU market is not that bright. It is evident that SADC countries' overall export performance in terms of wood and wood products exports is less than satisfactory. To increase their wood exports and be able to access the major international markets successfully, these countries would have to improve their production capacity, increase their investment in forestry, eradicate infrastructure backlogs and deepen their skills levels.

Table 9: SADC exports of wood and articles of wood by country (US$'000)

Countries	EU25, 2004 exports	Growth, '00-'04 (%)	NAFTA, 2004 exports	Growth, '00-'04 (%)	East Asia, 2004 export	Growth, '00-'04 (%)	Total exports
South Africa	127,679	21	40,146	23	461,263	16	629,088
Madagascar	4,404	158	287	-8	2,716	33	7,407
Mozambique	4,072	-32	89	-4	28,028	90	32,189
Tanzania	2,511	-21	489	-5	14,569	-10	17,568
Zimbabwe	717	-54	2,925	-14	-	20	3,642
Swaziland	517	3	202	-	252	-1	971
Zambia	182	92	762	82	20	-100	964
Total exports	140,082	168	44,898	74	506,848	48	691,829

Source: UNCTAD WITS and own calculations

6. Market access

Most SADC wood products are able to enter EU markets without any tariff barriers because they fall under the Generalised System of Preferences (GSP) – a programme designed to promote economic growth in the developing world by providing preferential, duty-free entry for their products – are part of the African Caribbean and Pacific (ACP) countries, which have tariff preferences that give them access to the EU market, or the Least Developed Countries (LDCs), which have duty-free, quota-free access to international markets. However, these countries have to meet certain requirements to enable their products to enter the EU market, for example, they have to provide evidence of origin to EU customs in the form of a Certificate of Origin and the wood or articles therefore must be transported directly to the EU from the country of origin. However, SADC countries face competition from other countries that are also eligible for these treatments.

As far as NAFTA is concerned, SADC wood and basic wood exports have access to the US market through the African Growth and Opportunity Act (AGOA), which gives these countries duty-free access to the US. The only SADC country not eligible for AGOA is Zimbabwe. Once again though, wood and wood products from other African countries receive the same duty-free status under AGOA, and are therefore major competitors of SADC. Further, Mexico, as part of NAFTA, does not pay any tariffs on its wood products entering this lucrative market, while other Latin American countries within the Andean group fall under the Preferential Treatment Area (PTA) and as such are also eligible for free access.

Table 10: Tariffs facing SADC in China and Japan

Product codes	Product description	China (%)	Japan (%)
440110	Fuel wood	0	0
440200	Wood charcoal (incl. shell or nut charcoal)	11	0
440310	Poles, treated/painted, etc.	0	0
440410	Poles, piles, etc., coniferous, pointed but not sawn	8	0
440500	Wood wool; wood flour	8	0
440610	Ties, railway/tramway, wood not impregnated	0	0
440710	Lumber, coniferous (softwood) 6mm and thicker	0	0
440810	Veneer, coniferous (softwood) less than 6mm thick	5	0
440910	Wood (lumber) continuously shaped coniferous (softwood)	8	0
441021	Unworked or not further worked than sanded	4	0
441111	Fibreboard >8g/cm^2 not worked or surface covered	4	0
441213	Plywood, outer ply of tropical hardwood, ply <6mm	12	8
	Windows, French windows and their frames, of wood	4	0

Source: International Trade Centre (ITC) Market Access Map (MacMap)

Japan levies 0% tariffs on most wood products from SADC, except for an 8% tariff on plywood (the outer ply of tropical hardwood), as indicated in Table 10. These low tariffs provide SADC countries with an opportunity to increase their exports into the Japanese market. However, other Asian countries with more capacity than SADC are likely to erode SADC's edge in this market. China on the other hand, as Table 10 shows, levies a general tariff on wood exports from SADC countries, while the region also faces stiff competition from West and East Asian countries, which already dominate the Chinese wood market.

As a result of the Uruguay Round agreement, which came into force on 1 January 1995, tariffs on forest products will continue to decline or be completely eliminated, which means that developed countries' import tariffs are set to decline substantially. While generally a positive development, these tariff reductions will partially erode the margin of advantage enjoyed by countries falling within the GSP – such as SADC. Tariff rates on wood products in developing countries tend to be much higher than those in developed countries, ranging from 10% to 60%, with additional taxes and duties often elevating the total burden considerably. Moreover, few developing countries offer preference schemes.

6.1 Known non-tariff barriers

6.1.1 Non-tariff measures

A variety of non-tariff measures (NTMs) exist for wood products. NTMs are often less visible than tariffs and include quantitative restrictions, such as import quotas, technical standards and plant health (sanitary and phytosanitary) standards, export restrictions and sometimes cumbersome import licensing, customs procedures and domestic policies. NTMs are also more complex than tariffs and it can be harder to gauge their impact. NTMs are thought to have a greater trade-restricting effect than tariffs. The use of import quotas for forest products is declining, but in some cases still cause difficulties. In contrast, the use of export restrictions, particularly on logs, has been increasing, and have had a major impact on trade in forest products. Complying with import licensing and customs procedures adds costs to foreign suppliers which domestic producers do not bear, while certain domestic policies, including subsidies and tax concessions, affect the competitiveness of foreign producers by reducing domestic producers' costs.

For wood products, safety concerns usually revolve around strength characteristics and suitability for use in construction. This affects logs and sawn wood more than higher value-added processed wood products, which are less often used for structural purposes. The same holds true for health and phytosanitary standards, as most value-added products contain timber which has been dried before use, reducing phy-

tosanitary risks. In the EU, health and phytosanitory regulations could be more important for trade in non-wood forest products (NWFPs), since these are often used in food and environmental contexts. These include, for example, restrictions on wood-based panels containing formaldehyde glue, controls designed to discourage companies from using chlorine to bleach pulp, and regulations regarding the recycling and recovery of waste paper and packaging.

While some NTMs have been declining, others have been on the rise. Two World Trade Organisation (WTO) agreements which were part of the Uruguay Round could lead to a reduction of the trade-distorting impact of NTMs – the Agreement on Technical Barriers to Trade (TBT) limits the use of technical regulations to legitimate safety, health and environmental protection purposes, while the Agreement on the Application of Sanitary and Phytosanitary Measures might improve quarantine and inspection conditions.

Other trade restrictions are usually motivated by environmental concerns. In the forestry sector, recent bans and boycotts are particularly aimed at encouraging sustainable forest management. These NTMs include bans on the use of timber from forests which are not sustainably managed and have been imposed by local authorities as well as retailers and traders. Often the main target has been tropical timber, due to concerns about tropical deforestation. Many of these bans are linked to the certification of forest products, whereby consumers are assured that the wood in the products they are buying comes from a sustainably managed source.

Finally, the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) uses degrees of trade restrictions to regulate trade in endangered species. CITES became a controversial forestry issue recently when developed countries attempted to place several commercially important tropical tree species (such as mahogany) on the CITES restricted lists.

It is clear that trade impediments have an impact on the levels and patterns of forestry products trade, and it seems likely that this impact will continue in the future.

6.1.2 Anti-dumping and countervailing measures

Countries like the US have recently used anti-dumping measures as a barrier to defend their local wood products industry, which came under pressure from cheap imports from, for example, China. The use of anti-dumping in this case cannot be justified, given that US consumers were paying cheaper prices for imported items identical to the more expensive ones manufactured locally. In addition, the US government could not provide proof of material injury or any significant threat to its domestic industry.

Detailed information on market access and trade agreements can be found at the following webasites:

- Agreement on Application of SPS Measures
  General
  http://stdfdb.wto.org/category_project.asp?cat=270&subcat=40
- SPS Measures
  Plant health
  http://stdfdb.wto.org/category_project.asp?cat=270&subcat=20
  http://www.wto.org/english/tratop_e/sps_e/sps_e.htm
- Agreement on Technical Barriers to Trade
  http://www.wto.org/english/docs_e/legal_e/17-tbt.pdf
  http://www.wto.org/english/tratop_e/tbt_e/tbt_e.htm
- Agreement on Technical Barriers to Trade in the EU
  http://trade-info.cec.eu.int/tbt/index.cfm
- Agreement on Trade-related Aspects of Intellectual Property Rights
  http://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm
- The Agreement on Trade-related Investment Measures
  http://commerce.nic.in/wtotrims.htm
- Agreement on Anti-Dumping Measures
  General
  Directorate General of Anti-Dumping & Allied Duties
  Legal Provisions Governing Anti-Dumping/Countervailing Measures
  http://www.wto.org/english/tratop_e/adp_e/adp_e.htm
  http://www.wto.org/english/tratop_e/adp_e/antidum2_e.htm
  http://commerce.nic.in/annual2003_04/html/Lesson-18.htm

7. Distribution channels

Typically, firms establish distribution channels based on the nature of the end-market to be served and the requirements of intermediary wholesalers and retailers in the channel. At present, consolidation of the wood and wood products distribution channel is taking place in Europe and the US to obtain better control over the distribution of products, through shortening such channels and reducing the number of intermediaries taking mark-ups on product prices. The analysis below explains the nature of wood products' distribution channels in the major markets.

7.1 The EU & Central and Eastern Europe

Channels of distribution in these regions take on two forms:

- Channels of marketing through which information flows and sales of products are made.
- Channels of delivery through which products flow.

Traditional importers and traders are still the main companies dealing with exporters, although a key trend that has emerged within the timber industry is for supply chains to be shortened. Some importers are therefore by-passing agents and buying directly from shippers and exporting countries, while some manufacturers of finished products are sourcing timber directly from exporting countries without trading through agents, importers or merchants.

In response to this changing trade environment, some agents are now trading directly with manufactures and even end-users, increasing processing, building up large stocks and increasingly relying on just-in-time deliveries. Although direct trading with end-users by large agents and importers is still fairly limited, it is regarded as an increasingly important part of the distribution channel and is likely to become even more important in the future. Consolidation of businesses into larger companies is another distinctive trend and is regarded by many as a necessary step if industries are to remain competitive in the future. Larger companies offer some economies of scale over smaller ones, for example, reduced overheads and diversity of products.

In the case of value-added products, the channels of distribution for both marketing and delivery are changing. The development of e-commerce has undoubtedly become increasingly important, particularly to the channels of marketing and for finished value-added products, while the emergence of home delivery of goods could well add another level to the channel of delivery.

7.2 NAFTA

As far as NAFTA is concerned, distribution occurs mainly through retail stores, while there has been an increase in mill-direct sales. The US in general uses the following distribution channels for wood products:

- Selling directly to the end-user;
- Contractors;
- Retailers;
- Wholesalers; and
- Other.

Mills have been forced into the distribution business, sometimes through partnerships with existing distributors. Hence, the success of most distributors is measured by their relationship with both suppliers and vendors.

In Mexico, lumberyards are the central link in the distribution of cut timber and other forest products. Most are family-run businesses, with the largest lumberyards located in cities and industrial zones. These businesses will plane, size and deliver to homes, while some larger ones offer kiln-drying, which decreases the added cost of transportation to the processor. Small lumberyards purchase only national pine and focus on carpentry and construction woods; larger ones have a varied source of supply.

The main change in distribution trends has been the availability of a stable and adequate wood supply relative to demand, influenced in part by an increased lack of funds to purchase inventory. Lumberyards can no longer pre-finance the operations of sawmills and so they serve as a bridge for secondary processors, who cannot or do not want to purchase directly from sawmills. Sawmills that wish to deal directly with secondary processors, eliminating lumberyards from the chain, need to have good products, good service and good liquidity.

7.3 East Asia

7.3.1 Japan

Japanese distribution channels are undergoing major changes due to structural changes in the economy. Distribution channels during the 1960s and 70s were relatively stable, with large Japanese trading companies being the major players in the distribution of building materials and products. These companies supplied wood products from the wholesalers up to the retailers. However, this distribution system created barriers to imported products that could not be handled in the traditional manner. Recently, traders have begun to import finished

building products using a shorter and more direct distribution system. Finished imported building products from western Canada and the US are distributed through a much shorter route – often directly to the builders. According to a 1999 survey, the shortest distribution channels for imported wood products are:

- Home builders 41%
- Retailer/distribution/wholesaler 31%
- Trading company 13%
- Own sales office in Japan 13%
- Other 2%

7.3.2 China

China does not seem to have a particularly structured distribution system for wood and wood products, with simple, complex and mixed channels of distribution having been evaluated during the country's rapid economic evolution. Each city or region has its own wood market, resulting in various sized wood markets. However, poor communication contributes to very localised markets. The variety of distribution chains, combined with poor market communications and little accurate market information, lead to some frustration for a potential exporter trying to understand the Chinese distribution system and market for wood products. In addition, channels of distribution not only change with geographical region but can also be very product specific. This confusion in both market and distribution contributes to few products being shipped very far from the coast and port of landing, which intensifies competition amongst imports while ignoring potentially lucrative interior market opportunities.

Market prices of major wood products from the main markets are published in newsletters. However, communication between the markets is infrequent and imperfect. Therefore the price for a similar product in different markets can vary quite substantially. Imported wood can also be found in these markets, but products traded in the wood market are mainly commodity products made from domestic materials. Channels for imported wood products depend very much on the specific product category. Logs, lumber and panels are usually imported by State-owned Trading Companies (SOTCs) or by large private companies through SOTCs. Small amounts of value-added products, such as doors, windows and kitchen cabinets, can be imported directly by large interior decoration or construction companies. The majority of imported wood products is not shipped far from the coastal areas because of higher transportation costs and the higher average incomes of people living in coastal regions.

8. Commercial practices

The international demand for wood products seems to be growing and there is a potential for SADC countries to access these particular markets. However, there are some challenges that need to be addressed in order to make this potential a reality.

8.1 Opportunities and challenges

- *Increase forestry investment and management*

Most SADC countries, excluding South Africa, invest little in forestry business and management, which leads to under-utilisation and degradation of forests. Furthermore, illegal logging has increased, resulting in the destruction of forest species that have export potential.

- *Increase skills development in the forestry sector*

Many SADC countries (excluding South Africa) do not invest significantly in skills development for forestry workers, which hampers effective production and worker productivity.

- *Increase intra-SADC trade*

SADC countries should increase their intra-regional trade in similar ways to the EU and East Asian countries. South Africa, for example, is a potential market which other wood-exporting SADC countries can exploit, especially in the furniture sector.

- *Reduce infrastructure backlogs*

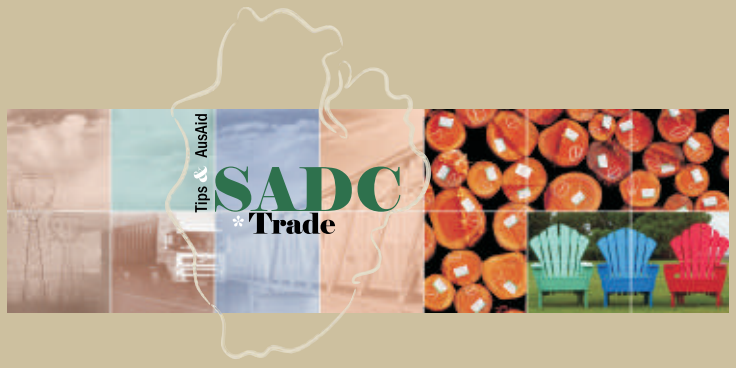
Proper infrastructure enhances the efficient transportation of wood products to market destinations. The majority of SADC countries have infrastructure backlogs, with roads and railways in need of repair.

- *Resource development*

Southern Africa's share in global consumption and trade of wood products has not been significant, considering the fact that the region is blessed with natural forests. The bulk of Southern African wood continues to provide fuel for the rural populations. In light of the escalation of Southern Africa's forest degradation, there is a need to expand natural forest land with plantations and to integrate agriculture and forestry.

In terms of manufactured wood products, the following observations can be made on future developments for Southern Africa:

- Eucalyptus and acacia plantations may prove more viable in future, as technological progress has been made in processing these fast-growing species. Effective marketing communication conveying the sustainability and certification of forest management will provide valuable support for eucalyptus. These arguments are increasingly used by eucalyptus flooring producers in Spain and Portugal.
- Wood-based panels face a different situation, as particle board demand is expected to falter by 2010. Southern Africa will remain a net importer, importing around 7% of its requirements.



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