International Trade Report

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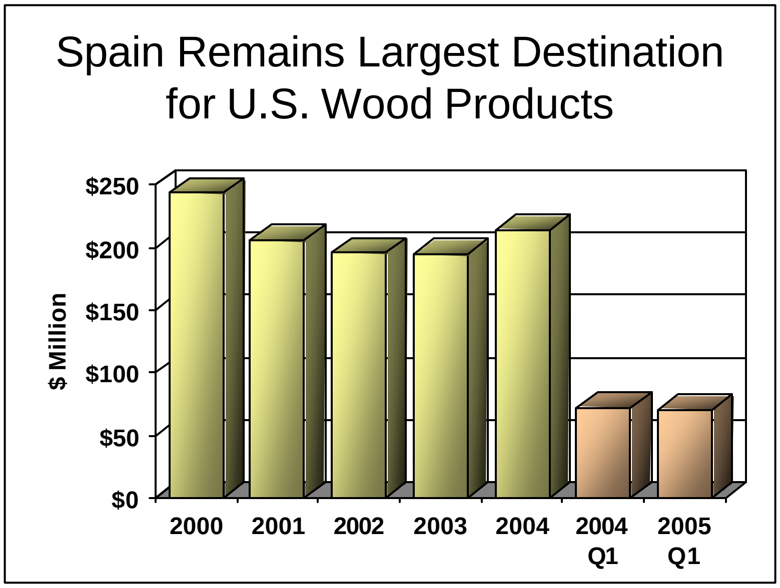
Destination: Iberia

U.S. Wood Product Exports Have Great Potential in Spain



Spain continues to be the hotspot for U.S. wood product exports to the EU-25. U.S. wood exports to Spain increased 10 percent from 2003 ($194 million) to 2004 ($214 million), the first increase for U.S. wood product exports since 1999. Spain has remained the largest destination for U.S. wood products in the EU-25 since 2000, holding a market share of over 20 percent in 2004, followed by the United Kingdom, Italy and Germany with market shares of 18 percent, 17 percent, and 15 percent, respectively. Exports in the first quarter of 2005 remained strong as a weak U.S. dollar and robust demand for new homes in Spain kept U.S. wood exporters focused on supplying the growing Spanish market.

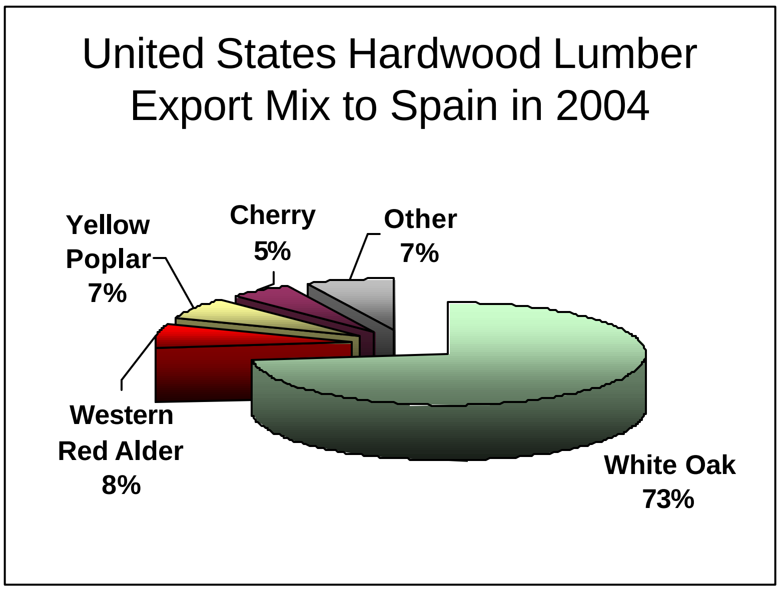
Government Policy Stimulates Housing Demand

The macroeconomic outlook for Spain is positive. GDP is expected to increase over two percent in 2005, fueled primarily by low interest rates and strong job creation. Economists remain skeptical, though, as both high inflation and unemployment rates continue to chisel away at industry earnings. Moreover, the housing market has been hot due to government policies that, on one hand, stimulate demand for new homes (generous first-time buyer tax credits) and, on the other hand, limit the available supply (residential land use restrictions). As a result, demand for new homes has spiked over the past two years, leaving some to believe the housing "bubble" may soon burst. U.S. exporters continue to profit, though, exporting large quantities of hardwood lumber and veneer for furniture, doors and flooring, in order to take advantage of the recent housing boom.

Treated lumber has also gained ground in the U.S. export mix as Spanish builders continue to specify southern yellow pine (SYP) and other softwoods for outdoor decking, marinas, doors and molding. U.S. exports of SYP lumber to Spain, valued at $20 million in 2004, were up over 12 percent from 2003 to 2004. First quarter data for 2005 indicates demand for U.S. SYP is still strong, with exports to Spain up 35 percent compared to 2004. This increase is primarily due to the increased use of treated lumber in outdoor decking and marina applications. Southern yellow pine continues to gain popularity in outdoor applications due to its clear look and durability with proper treatment. U.S. SYP exporters still face stiff price competition from European species, including European redpine which is sold at nearly half the price of SYP.

Spain Opens "Doors" for U.S. Exporters

With a robust housing market comes considerable demand for builders joinery and carpentry products, including doors, parquet panels, shingles, shakes, and windows. In 2004, Spain imported close to $245 million worth of builders joinery and carpentry products. Overall demand for these secondary products in Spain has soared, with total import growth well over 172 percent from 1999 to 2004. While the United States is not a primary supplier of secondary wood products to Spain, it is by far the largest hardwood lumber supplier. White oak dominates the hardwood lumber export mix and represented 35 percent of total U.S. wood exports to Spain in 2004. Spanish specifiers and architects commonly use white oak for joinery and builders carpentry, including doors, flooring and molding. White oak is the most common species of choice for flooring applications, with 57 percent of Spanish flooring producers specifying white oak in 2004, followed by tropical hardwoods at 30 percent and other temperate hardwoods at 13 percent.



Import Pressure from Northern and Southern Europe

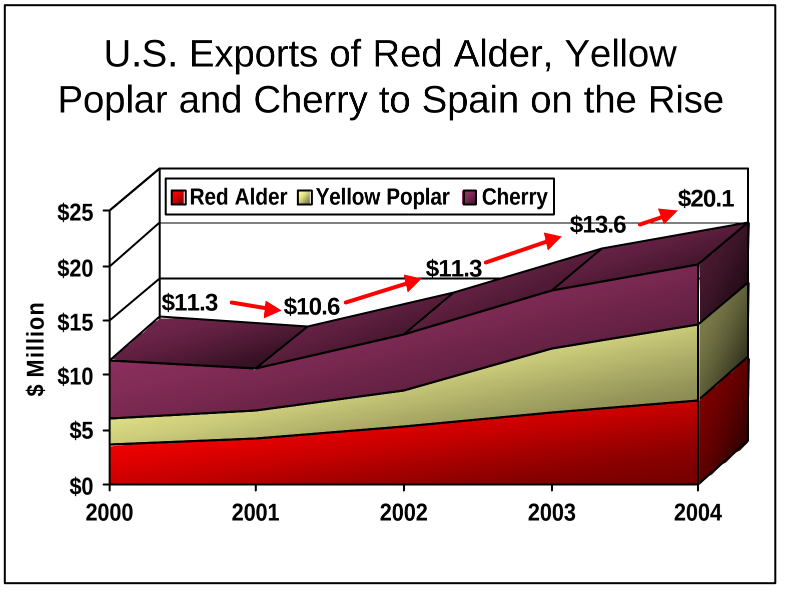
While the United States is a long-time supplier of hardwood lumber and veneer to Spain, export competition remains fierce. Spain's close proximity to other major wood exporting countries in Western Europe allows for cheaper imports, which is a continuous challenge faced by U.S. exporters. Pricing wars are not uncommon in Europe. The recent accession of 10 new EU member countries in 2004 has opened borders with Eastern Europe, resulting in an ever-increasing low-cost timber supply. Other countries, notably China and Brazil, also provide low-cost logs and lumber, as well as other secondary wood products, to the Spanish market.

The United States also faces fierce competition from the north, primarily Finland and Sweden. Swedish and Finnish exports to Spain totaled well over $270 million in 2004, underscoring the ever-growing export market in Scandinavia. In addition, increased timber supplies have been flooding the market as a result of timber salvage efforts following a severe storm in early 2005. An estimated 75 million cubic meters of forest was downed as a result of the storm, the equivalent of an annual average felling in all of Sweden. Swedish forest owners have already begun to expedite removal of the downed trees to mitigate the increased risk of pest infestation with the approach of warmer weather. Year-to-date statistics indicate Swedish exports to Spain are already up two percent compared to 2004 first quarter numbers.

In 2004, the United States was the third largest exporter of wood products to Spain. France and Portugal, Spain's top two import sources in 2004, supplied well over 25 percent of Spanish wood product imports. Furthermore, U.S. export growth to Spain at 9 percent from 2003 to 2004 was easily paralleled by France and Portugal at 10 percent and 8 percent, respectively.

White Oak Exports Have a Following

U.S. suppliers continue to find export opportunities in Spain. However, future export growth will be largely dependent on promotion rather than price as U.S. hardwood lumber is significantly undercut on a price basis by Eastern European hardwoods. White oak continues to dominate the hardwood lumber export mix and still has room to grow, especially in furniture, kitchen cabinet, flooring and molding applications. Other U.S. hardwoods, including western red alder, yellow poplar and cherry, have also become increasingly popular among Spanish furniture and flooring manufacturers, experiencing total average growth from 2003 to 2004 of 13 percent. In fact, U.S. exports of red alder, yellow poplar and cherry to Spain have nearly doubled since 2000, growing from $11.3 million to over $20 million. Hardwood veneer is also a viable prospect for U.S. exporters as many furniture manufacturers are now moving away from classical furniture styles employing solid wood to a more modern style utilizing MDF veneer sheets. In addition, hardwood veneer is still traditionally used for doors, molding and picture frames.



The Road Ahead

U.S. wood product exporters will continue to face obstacles in the Spanish market. Competitors from Eastern Europe and Asia continue to infiltrate the market with low-cost alternatives that are sometimes sold at nearly half the price of U.S. product. Furthermore, more conservative fiscal policy will eventually dampen surging demand for new homes. As a result, U.S. wood exporters will be forced to seek alternative applications and buyers for hardwoods and softwoods.

It is imperative that U.S. exporters continue to adapt to the constantly changing trends in Spain. U.S. exports of hardwood lumber have fared well, experiencing positive growth since 2000. The weak dollar has helped, allowing U.S. exporters to compete against low-cost competition from Eastern Europe and Asia. The United States will remain a viable competitor with other countries as long as the U.S. industry continues to promote the notable quality and durability of U.S. wood products. The coming years will present many opportunities and challenges for U.S. exporters, and it is important that they maintain their reputation as suppliers of superior-quality wood products to Spain.

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