A New Horizon for U.S. Solid Wood Products as China Prepares to Enter the WTO

by Roseanne Freese, Agricultural Economist

On November 15, 1999, the United States and China successfully completed bilateral talks on China's accession to the World Trade Organization (WTO). This agreement will provide significant access for U.S. agricultural and industrial products and services. The recent increases in U.S. solid wood exports to China are expected to accelerate. Total U.S. solid wood products to China and Hong Kong reached $161 million in 1999, nearly half of which were direct sales to China. These are expected to reach a $225 million in 2000, with a record $200 million consisting of value-added products.

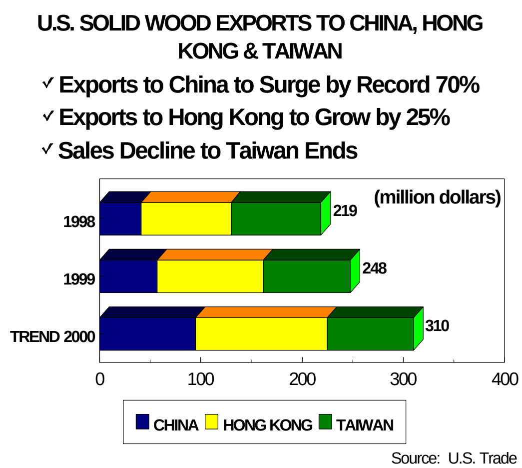
Hong Kong, which has zero tariffs for solid wood products, is a separate entity for customs purposes. Currently, Hong Kong is a significant gateway into the China market because of their traders' expertise in managing large-scale, high-value shipments. However, Hong Kong's role in this respect is expected to diminish over the next five years as China's import tariffs fall and familiarity with U.S. species, grades, and applications increases.

U.S. exports are expected to grow in 2000 as China increasingly turns to the world market
and to U.S. suppliers to meet its housing, furniture, interior paneling, and flooring needs. The United States currently supplies more than 5 percent of China's and Hong Kong's import needs for solid wood products and this is expected to increase with the privatization of trade, construction, and marketing, and as import tariffs decrease.

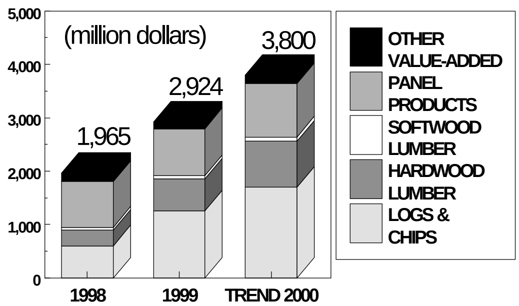
Until the mid 1990's, direct trade was limited due to China's tariffs (some in excess of 50 percent) and cumbersome import procedures controlled by government monopolies.

China is now Asia's fastest growing importer of solid wood products and Asia's largest furniture exporter. China's total solid wood imports are projected to reach a record $3.8 billion in 2000; 30 percent more than China's imports in 1999. This dramatic increase is propelled by China's decision in

January 1999 to lower import tariffs on all logs and lumber to zero to reduce pressure on forests and protect watersheds. This reduction also benefits China's efforts to privatize its construction market by lowering the cost of inputs. China is now the world's third largest solid wood importer after the



TOTAL SOLID WOOD IMPORTS BY CHINA
Rising, Rising, Rising...



Source: World Trade Atlas/Chinese Customs

Trend 2000 based on Jan - August imports.

United States and Japan. According to recent industry estimates, membership in China's furniture and plywood manufacturer's associations is now in excess of 50,000 firms. As we move into the future, Taiwanese manufacturers are expected to become more active in the market as they transfer financial and technical capital to China to take advantage of lower labor costs.

Currently, China's import tariffs on solid wood products average 11 percent, with tariffs reaching as high as 21 percent. There is also a value-added tax of 13 percent. China's much anticipated accession to the World Trade Organization (WTO), however, includes a commitment to reduce the tariff rate to an average of 4 to 7.5 percent by 2005. Tariff reductions will proceed in stages, and tariffs for many items will fall by as much as 75 percent. Tariffs for veneer, for example, will fall from the current 10 percent to 3-4 percent by 2002, while tariffs for molding, plywood, and fiberboard will fall from the current range of 15-18 percent to 4 percent by 2004. The lowering of tariffs will make U.S. wood products more affordable, enabling Chinese consumers and manufacturers to purchase a wider variety of U.S. wood products more frequently. A table identifying specific reductions and implementation periods follows at the end of this article.

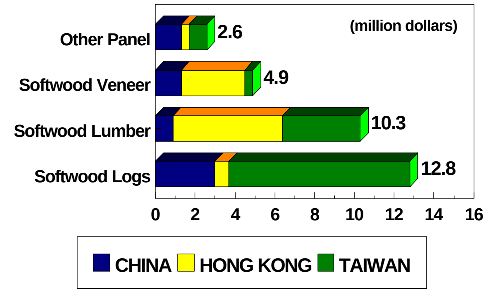
The Opportunities

Although the United States is ranked as the sixth largest supplier, China's recent housing reforms to privatize land, mortgages, and development are creating new demand for U.S. value added solid wood products. Exports of hardwood lumber to China, Hong Kong, and Taiwan topped the $100 million mark in 1999 and are expected to reach $165 million in 2000. Exports of other value-added commodities, while supplying the needs of China's housing, interior, paneling, and furniture markets, also reached a record $52 million in 1999 and strong growth is expected to continue.

Interestingly, although Taiwan maintains a separate trade status vis-a-vis China, the decline in U.S. solid wood sales to Taiwan has halted. U.S. exports to Taiwan are expected to achieve $90 million in 2000, with much of the product either transhipped or further processed for resale into China. Taken together, the markets of China, Hong Kong, and Taiwan now account for more than $300 million per year and would be ranked fourth for total U.S. exports after Canada, Japan, and Mexico.

The United States and China in 1998 embarked on a bilateral Presidential Housing Initiative whereby the United States would provide assistance with mortgage management, low-income housing policy, and building standards and codes that would favor the use of renewable resources, such as wood, in commercial and residential property development . This provides the United States with an opportunity to export ultra value-added softwood products, including composite lumber, glue-laminated beams, joists and trusses. Trade in these products was previously unheard of due to a lack of understanding of the technology and insurmountable monopolistic controls. With the privatization of China's real estate market coupled with U.S. industry's FAS-funded market promotion programs, the demand for these and other U.S. products can only be expected to grow.

JANUARY - AUGUST 2000 U.S. SOFTWOOD EXPORTS TO CHINA, HONG KONG & TAIWAN



Source: U.S. Trade

The Bottom Line for the U.S. Solid Wood Industry

- Granting permanent normal trade relations to China and China's subsequent accession into the WTO will benefit the whole supply chain, manufacturers, exporters, and consolidators, as well as companies involved in port handling, transportation, storage, and grading.

- As export sales grow, jobs will be created and supported in the solid wood manufacturing sector and other industries here in the U.S. Solid wood exports support nearly 600,000 jobs throughout all 50 states, but especially assist the economies of the coastal states, from California to Alaska and from Texas to Maine. The supporting industries earn profits from resale, export, storage, transportation, finance, and other related activities.

The People's Republic of China
Schedule of Tariffs for the Importation of Solid Wood Products
Upon Accession to the World Trade Organization

		1998 Base	Final Bound	------------Schedule of Implementation*------ -------				
Harmonized System Line (Customs Code)	Rate	Rate	2000	2001	2002	2002	2004	2005
Fuelwood								
4401.1000	8	7	7					
Wood Chips & Wood Waste								
4401.2100, 4401.2200 & 440.1.3000	1	1	1					
Wood charcoal								
4402.0000	12	10.5	10.5					
Logs								
All 4403.1000 - 4403.9990	2	1	1					
Hoopwood								
4404.1000 & 4404.2000	10	8	8					
Wood Wool & Wood Flour								
4405.0000	9	8	8					
Wood Cross Ties								
4406.1000 & 4406.9000	3	2	2					
Lumber								
Coniferous								
4407.1000	3	1	1					
Oak & Beech								
4407.9100 & 4407.9200	3	1	1					
Teak								
4407.2910	9	5	7	5				
Camphor, Nanmu, or Rosewood								
4407.9910	9	1	7	5	3	1		
Other Tropical Hardwood Species								
4407.2400, 4407.2500, 4407.2600 & 4407.2990	3	3	3					
Paulownia & Other Temperate Hardwood								
4407.9920 & 4407.9990	3	2	2					
Veneer								
Softwood Veneer Sheets								
4408.1010	10	4	8	6	4			
Tropical Hardwood Veneer Sheets								
4408.3110 & 4408.39	10	8	4	6	4			
Temperate Hardwood Veneer Sheets								
4408.9010	8	3	6.3	4.7	3			
Softwood Sheets for Plywood								
4408.1020	6	4	4					
Tropical Hardwood Sheets for Plywood								
4408.3120 & 4408.3920	5	4	4					
Temperate Hardwood Sheets for Plywood								
4408.9020	5	3	3					
Other Veneer, Softwood								
4408.1090	8	4	6	4				

Harmonized System Line (Customs Code)	Rate	1998 Base Rate	Final Bound 2000	------------Schedule of Implementation------- ------ 2001	2002	2003	2004	2005
Other Veneer, Tropical Hardwood								
4408.3190 & 4408.3990	8	4	6	4				
Other Veneer, Temperate Hardwood								
4408.9090	8	3	6.3	4.7	3			
Molding								
Coniferous								
4409.1000	15	7.5	13.1	11.3	9.4	7.5		
Non-Coniferous								
4409.2000	15	4	12.8	10.6	8.4	6.2	4	
Particleboard								
Of Wood, Including OSB								
4410.1100 & 4410.1900	18	4	15.2	12.4	9.6	6.8	4	
Not of Wood								
4410.9000	18	7.5	15.9	13.8	11.7	9.6	7.5	
Fiberboard								
Hardboard								
4411.1100	15	4	12.8	10.6	8.4	6.2	4	
Laminated Hardboard								
4411.1900	18	7.5	15.9	13.8	11.7	9.6	7.5	
Medium-Density Fiberboard (MDF)								
4411.2100 & 4411.2900	18	4	15.2	12.4	9.6	6.8	4	
Other Fiberboard								
4411.3100, 4411.3900 & 4411.9100	12	7.5	10.5	9	7.5			
Other Laminated Fiberboard								
4411.9900	12	4	10	8	6	4		
Plywood								
Consisting Solely of Sheets of Wood								
Tropical Hardwood Face								
4412.1300	15	12	13.5	12				
Temperate Hardwood or Softwood Face								
4412.1400 & 4412.1900	15	4	12.8	10.6	8.4	6.2	4	
Not Entirely of Sheets of Wood with Face of Non-Coniferous Wood								
Containing one Tropical Hardwood, Temperate or Softwood Ply								
4412.2200 & 4412.2900	15	10	13.3	11.7	10			
Not Entirely of Sheets of Wood with Face of Coniferous Wood								
One Tropical Hardwood Ply								
44129200	15	8	13.3	11.5	9.8	8		
One Layer Particleboard								
44129300	15	10	13.3	11.7	10			
Other								
44129900	15	4	12.8	10.6	8.4	6.2	4	
Densified Wood								

4413.0000	10	6	8	6				
Wood Picture & Photo Frames								
4414.0000	22	20	20					
		1998 Base	Final Bound	-------------Schedule of Implementation------ -------				
Harmonized System Line (Customs Code)	Rate	Rate	2000	2001	2002	2003	2004	2005
Wood Cases, Drums, Pallets								
All 4415.1000 - 4415.2000	18	7.5	15.9	13.8	11.7	9.6	7.5	
Wood Casks, Barrels, & Tubs								
4416.0000	18	17	17					
Wood Tools & Tool Bodies								
4417.0000	18	17	17					
Wood Windows, Doors, Window & Door Frames, and Parquet Panels								
4418.1000, 4418.2000, & 4418.3000	18	4	15.2	12.4	9.6	6.8	4	
Concrete Forms								
4418.4000	20	4	16.8	13.6	10.4	7.2	4	
Shingles & Shakes								
4418.5000	18	7.5	15.9	13.8	11.7	9.6	7.5	
Other Builder's Carpentry of Wood								
4418.9000	18	4	15.2	12.4	9.6	6.8	4	
Wood Table & Kitchenware								
4419.0000	21	0	17.5	14	10.5	7	3.5	0
Wood or Bamboo Statuettes, Fans & Ornaments								
4420.1010, 4420.1020, & 4420.1090	21	0	17.5	14	10.5	7	3.5	0
Wood Marquetry or Inlaid Wood								
4420.9010	12	0	9.6	7.2	4.8	2.4	0	
Wood Clothes Hangars								
4421.1000	21	0	17.5	14	10.5	7	3.5	0
Wood Spools								
4421.9010	10	0	8	6	4	2	0	
Other Wooden Articles								
4420.9090 & 4421.9090 21	0	17.5	14	10.5	7	3.5	0	