FOREST PRODUCTS FEATURE ARTICLES

RECONSTRUCTION CREATES OPPORTUNITIES IN EL SALVADOR

By Rachel Hodgetts, Agricultural Economist

El Salvador, located between Honduras and Guatemala, is a market that U.S. wood exporters should be keeping their eyes on. The country is very pro-American, has a dollar-based economy, very low tariffs with continuing reductions, streamlined customs procedures, and has one of the most transparent business climates in Latin America. Furthermore, after being hit by two earthquakes earlier this year, construction is booming.

A recent report published by the U.S. Embassy in El Salvador specifically points to the housing market as an area for increased U.S. exports (see report at www.usinfo.org.sv/econcomm.htm). The report notes that in 1999, El Salvador had a housing deficit of 551,000 homes and, at the current rate, the government would need 56 years to rebuild. This averages out to an annual increase in housing demand of 38,000 homes, of which 5.2 percent can be considered high-income housing (costing $17,000 or more), 16.7 percent middle-income housing (between $7,429 and $14,258), and 78 percent low-income housing. Although Salvadorians traditionally prefer concrete and adobe homes, the reconstruction efforts going on in El Salvador at this time have the potential to open the market for alternative materials.

The key factors that reconstruction organizations use in evaluating housing models are local supply, costs, resistance to earthquakes and hurricanes, and local labor familiarity. Since concrete is the most expensive material, other materials would have an advantage in the area of costs. Construction Industry Association (CASALO) officials believe the earthquakes have improved the likely acceptance of prefabricated houses since many of these homes were able to withstand the disaster. To overcome the lack of labor familiarity with wood, U.S. companies would most likely need to develop training programs directed at homebuilders and construction labor in order to penetrate the market. Besides reconstruction, there may also be opportunities in the hotel construction industry, which has recently been growing.

El Salvador has an excellent relationship with the United States. About 1.3 million Salvadorians live in the United States and they send almost $1.5 billion in remittances back to their families each year. The privatization of the banking sector has provided importers with numerous financing options and the political environment is stable and expected to remain so. The new administration, elected in June 1999, has continued to shift government spending away from military spending towards mostly social spending, often working with local construction companies and banks. Social programs account for 48 percent of the Central Government budget, and construction has made up an increasing portion of this.

In the period immediately before the earthquakes, the government focused its housing policy on providing housing for the poor through the National Fund for Popular Housing (FONAVIPO) and the Social Fund For Housing (FSV). The former provides a direct subsidy of $2,000 for the construction of new homes valued at less than $7,428 and the latter provides loans for housing valued between $9,700 and $14,285. More recently, the Government has said it will provide financing to rebuild 170,000 destroyed or badly damaged homes and repair an additional 100,000 homes out of the 334,866 homes that were either damaged or destroyed. The government has also gotten international financing to fund a housing plan which is meant to meet the flood of migration to urban areas. In addition to domestic aid, the U.S. Government , principally through USAID, had earmarked $54 million to El Salvador's housing reconstruction effort.

Unfortunately, several difficulties remain in the market that will not be overcome without effort. For example, due to preferential trade agreements and lower costs, Honduras and other Latin American countries can send lower quality, lower priced wood to the market. Also, the general lack of wood on the local market may deter some builders from using wood unless they can be assured that stocks will be available for their projects. In addition, the Salvadorian housing market suffers from an unsold housing inventory, despite its housing shortage. Some explain this by saying that builders are out of sync with consumer preferences and purchasing power, or that potential customers for these houses do not have access to credit. To alleviate this problem, the Government developed the Social Fund For Housing, which is a credit plan between the construction sector and private banks that helps find purchasers for unsold houses. The introduction of U.S. dollars as legal tender in January of 2001 has also helped the construction sector by reducing the cost of importing construction materials and decreasing local interest rates, from 14.55 to 11.5 percent, encouraging investment in real estate for higher-valued homes.

Entering a new market is always difficult but the current housing deficit in El Salvador seems to be a good opportunity for the wood products industry. A good place to start would be seeking a contract with one of the various aid agencies that are rebuilding the destroyed homes. For example, the U.S. Agency for International Development (www.info.usaid.gov) will be sending out a request for proposals some time between now and the end of the year to build 15,000 houses in El Salvador for $3,500 per unit. For more information on reconstruction projects contact Rachel Hodgetts at (202) 720-1001 or Patrick Smeller at (202) 482-0133.

SOLID WOOD PRODUCTS, BEFORE AND AFTER THE ASIAN FINANCIAL CRISIS

By Tony Halstead, Agricultural Economist

In 2000, solid wood product imports for the major countries of the world totaled $54.3 billion, surpassing the 1997 Pre-Asian Financial Crisis total of $53.6 billion. In 1998, the crisis had an immediate impact on the wood sector, causing imports to decrease over $7 billion and total $46.4 billion.

Although total imports reached $52.6 billion in 1999, it has not been business as usual. As import demand from such Asian countries as Japan, Korea, and Taiwan fell precipitously, import demand increased from the United States, China, the EU, and to a lesser extent, Canada and Mexico.

China

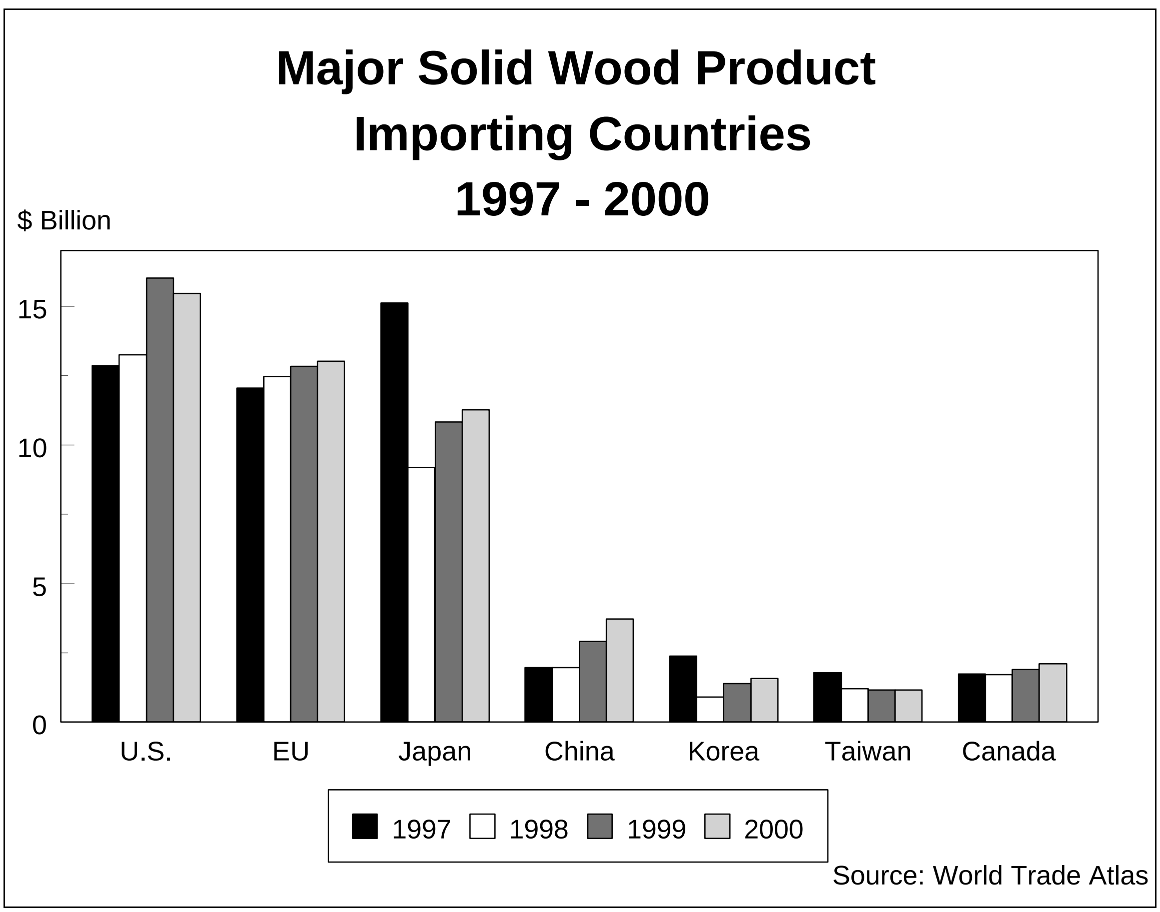
Despite the Asian Financial Crisis, China's wood imports increased from $2.0 billion in 1997 to $3.7 billion in 2000. Log imports accounted for a majority of this growth, surging from $700 million in 1997 to $1.7 billion in 2000. Increases were fairly even between softwood and tropical hardwood and temperate logs. Demand for imported hardwood lumber tripled to $900 million, with supplies mainly coming from Indonesia, the EU, Malaysia, and Thailand.

During this time of growth, China's imports of U.S. wood products remained flat at $140 million, causing U.S. market share to decrease from 7 percent to just 4 percent. Although a majority of China's wood imports are sourced from Indonesia and Malaysia, these countries lost significant market share, due mainly to a surge of lumber products from the EU and logs from Russia.

In 2000, China imported over $660 million of wood products from the EU, up from just $60 million in 1997. Strong wind storms in Europe made a large volume of beech wood available at low prices in 1999 and 2000, and Chinese importers stocked up.

European Union

Between 1997 and 2000, EU wood product imports increased $1 billion to total $13 billion. Increased imports from Russia, Latvia, China, and Romania accounted for a majority of the growth. Products that contributed to the increase included softwood logs, which increased over $200 million, and softwood lumber, which increased $250 million. Imports of hardwood molding grew $70 million and



imports of beams, arches, and trusses also increased by $70 million.

Despite the EU's growing market, imports from the United States decreased $300 million over the last three years to $1.4 billion, and U.S. market share decreased from 14 percent to 11 percent. Over $125 million of the U.S. decrease was directly attributed to competition from Brazilian softwood plywood and veneer panels, causing U.S. market share for these commodities to decrease from 41 percent to 7 percent.

The United States has also seen its market share for temperate hardwood lumber in the EU decrease from 39 percent in 1998 to 35 percent in 2000, while market share for softwood lumber decreased from 11 percent to 9 percent during the same period.

Japan

In 1998, Japan's wood product imports decreased $6 billion to $9.1 billion, causing Japan to slip from being the world's largest wood importer to the third-largest, behind the United States and the European Union. Far from recovering, imports totaled $11.2 billion in 2000. Although Japan imported $1.9 billion from the United States in 2000, Canada has nearly closed the $1 billion gap that once existed and is striving to surpass the United States as the top supplier to the Japanese market.

Between 1997 and 2000, the U.S. market-share in Japan decreased from 22 percent to 17 percent, while Canada's market-share remained steady at 16 percent. Imports from Indonesia and Malaysia ranked third and fourth, respectively, and their market share remained relatively unchanged for the period. Despite Japan's decreased imports of wood products, imports from China increased $100 million and those from the EU increased $50 million.

Lumber, Japan's leading wood product import, decreased $1.4 billion between 1997 and 2000 to $3.2 billion. Softwood lumber alone decreased $1 billion as imports from Canada and the United States decreased $600 million and $320 million, respectively. Softwood lumber from the EU decreased 50 percent in 1998 but has since returned to its previous level of $540 million.

Imports of logs, the second leading wood product imported into Japan, also decreased $1.4 billion over the same period and totaled $2.3 billion in 2000. Log imports from the United States decreased $580 million to $890 million in 2000 while imports from Canada jumped from $25 million to $225 million. A majority of Canada's increase was attributed to Douglas-fir logs displacing those from the United States.

Korea and Taiwan

Korean and Taiwanese wood imports were severely impacted by the Asian Financial Crisis. Between 1997 and 1998, Korea's imports decreased from $2.4 billion to $910 million and Taiwan's imports decreased from $1.8 billion to $1.2 billion. In Korea, softwood log imports were hit hardest and decreased over $240 million, while hardwood lumber imports decreased $70 million. In Taiwan, temperate hardwood logs and lumber imports each decreased $100 million.