



Responsible Publisher:

China Wood International Inc.
Beijing Xiangfei Sunshine Media & Ads Co.

www.chinawood.net

VOLUME 2 NO.7

July 2007

China Wood MONTHLY

**MARKET
REPORT**

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1. Export Rebates Removed, Cut to Curb Exports as from July 1

On June 19, 2007, Ministry of Finance and State Administration of Taxation announced to eliminate or cut tax rebates for 2,831 export items from July 1, covering 37% of the total in customs tariffs.

Export tax rebates for 553 “highly energy-consuming and resource-intensive” products, such as some wood-base panels and disposable wood products, especially bamboo plywood, plywood and lumber-cored plywood whose surface is made of tropical endangered wood species, will be eliminated.

Rebates for another 2,268 products, described as “easy to trigger trade frictions”, including some wood products like fiberboard, will be slashed from 8-17 percent to 5-11 percent. The export tax for ten commodities will be completely eliminated, including shelled peanuts, canvas, wood for carving and stamps.

Notably, this adjustment of taxation policy was publicized ahead of schedule, without a transition introduced. Enterprises can make early corresponding preparations.

2. From “Made in China” to “China Brand”: Transformation of China’s Flooring

On June 22, China’s 500 Most Valuable Brands was solely released by World Brand Lab, which includes 11 flooring enterprises, the brand value of which tops RMB20b.

Over more than one decade’s extensive development, China’s flooring enterprises have said goodbye to the simple image of “Made in China”. As a labor and resource intensive industry, flooring industry in China didn’t attach due importance to brand. But with the upgrading of competitiveness within the industry, some outstanding enterprises have trod the way of “brand development”. China’s flooring industry is entering a new phase of “China Brand”.

“The strong will be stronger and the weak will be weaker,” according to an expert when commenting on the prospect of China’s flooring industry. Chinese flooring enterprises have entered a phase of adjustment.

Consumers will more and more recognize and pursue brand, so reputed large flooring manufacturers will begin to raven the market and merge small enterprises, and at last only a number of brand enterprises will be able to survive and grow.

3. “China Aldehyde Wood Adhesives Consumption White Paper” Issued

China Aldehyde Wood Adhesives Consumption White Paper (hereinafter referred to as White Paper) was issued jointly by China National Forest Product Industry Association and China Consumers’ Association on June 22 in Beijing.

White Paper introduces the properties, standards, quality and consumption of popular aldehyde wood adhesives in the market; points out that high performance, low cost, and low pollution is the overall development trend of wood adhesives in China, and that above-scale modern production is the development orientation of the industry. The issuing of the White Paper aims at regulating China’s timber processing market, reducing interior decoration pollution, promoting the awareness of quality and environment among wood adhesive producers, and also making more consumers know there is aldehyde in wood products. It’s learned that wood adhesives are an important raw material in wood industry and are widely (now 70% in the domestic market) used in wood products such as wood-base panels, flooring and furniture.

4. FSC Certification Conferring Ceremony & China Forest and Trade Network (CFTN) Member Recruitment Conference Held in Beijing

On June 13, 2007, FSC Certification Conferring Ceremony & China Forest and Trade Network (CFTN) Member Recruitment Conference was jointly held by WWF (World Wide Fund for Nature) and Dongfanghong Forestry Bureau in Beijing.

Dongfanghong Forestry Bureau was conferred a CFTN membership certification and a FSC certification, while



Muling Forestry Bureau was certified as a CFTN member. With more than 400,000 ha of forest management areas, Dongfanghong Forestry Bureau is located in the core area of Amur-Heilongjiang drainage basin, one of the 200 key ecological regions of WWF.

Forest and Trade Network (FTN) was held on Mar 2005 by WWF, aiming at promoting legal trade and certification process of Chinese enterprises with market-based instruments. By now, there have been over 700,000 ha of forests passing FSC certification in China (the largest in Asia); 12 flooring and furniture manufacturers have been taken as CFTN members; and over 10 applicants are being assessed.

5. Bamboo Flooring Pouring into the Market this Hot Summer

Hot weather this summer brings the decoration market to a slack season. However, bamboo flooring, which was not much favored, sells rather well now, even better than solid wood flooring and engineered flooring.

Bamboo flooring quoted at RMB150/m² sells best. Bamboo flooring is characterized by little color difference, small coefficient of heat conductivity, and the unique feature of being cool in summer and warm in winter. So no matter in which season, it's very comfortable walking on bamboo flooring with bare feet.

6. Log Import in Ningbo Port Doubled with Volume and Value in May both Hitting New High

Timber in China keeps in huge demand with the booming of domestic infrastructure construction, the rapid development of real estate and architectural decoration. However, major timber exporters in the world have issued policies restricting the export of logs successively, making the cost of log import go up further.

According to Ningbo Customs, Ningbo imported 514,000 m³ of logs in Jan-May, amounting to US\$102m, 1.6 and 2.1 times more year on year respectively. Of the total, 138,000 m³ were import in May, worth US\$26m,

1.1 and 1.7 times more respectively, with both volume and value hitting new high in history. The import price in Jan-May averaged US\$198.2/m³, up 18 percentage points compared with the US\$168/m³ in the same period of last year. The imported logs were mainly sourced from Papua New Guinea (221,000 m³, 1.9 times more), Malaysia (73,000 m³, 1.7 times more) and Russia (63,000m³; 0 m³ imported in the same period last year). The total volume of the three accounts for 69.5% of the total in this period. Private enterprises imported most, reaching 332,000 m³, a year-on-year increase of 80.5%, making up 64.6% of the total import volume. Non-coniferous logs dominate with 341,000 m³ imported, one time more year on year, accounting for 66.3% of the total during Jan-May. General trade imports occupy absolute predominance with only 2,463 m³ imported in other trade modes.

7. Sales of Merbau Flooring Stopped while Sales of Engineered Flooring Up

B&Q has stopped the sales of merbau flooring with the given reasons being B&Q is cooperating with Greenpeace to oppose to illegally logging, exporting and producing endangered tropic trees. Is this practice out of environmental protection indeed or just a pure hype of dealers? Different people show different opinions. Merbau is mainly sourced from Indonesia and Papua New Guinea. In view of small reserves, Indonesia has banned the export of merbau logs. Before this merbau flooring was very popular in the market; merbau was used to make not only flooring but also furniture. According to B&Q, there are very few merbaus, only 1~5 merbaus able to be found in a forest as large as 13 football fields. Merbaus will die out within 35 years, even being logged according to the logging progress officially approved.

B&Q's practice is followed by some flooring manufacturers. In the meantime, high-grade engineered flooring, especially that made of fast-growing wood species, is more and more acceptable to consumers with strong environmental awareness.

Baishan, the Largest 3-layer Engineered Flooring Producing Base in China

Baishan City is located in the southeast of Jilin Province and the southwestern foot of Changbaishan forest region.

Rich Forest Resources

With forest coverage rate reaching 83%, Baishan is abundant in forest resources, and is one of the key forest regions in Jilin and even in China. At present, there are 1.619 million ha of forestry land, 1.4384 million ha of forest land and 182 million m³ of total standing stock, accounting for 17.2%, 17.9% and 21.2% of the total of Jilin Province (9.427m ha, 8.057m ha, and 860m m³) respectively.

To Be China's Largest Engineered Flooring Producing Base

Wood industry is a pillar industry of Baishan City. In 2006, the total output value of wood products hit 1.33b Yuan, or 10.9% of the gross value of industrial output of the city. By now, a good many reputed timber further-processing enterprises have appeared and the largest 3-layer engineered flooring processing base at home has been established here.

The establishment of the 3-layer engineered flooring processing base has brought changes to the structure of forest product industry, from providing primary products like logs to semifinished and final products and from low to high in value-added.

The production capacity of engineered flooring of the city reached 6m m² in 2006 with exports amounting to US\$68.96m, accounting for 58% of city's total exports, for 90% wood product exports of the Baishan, and for 70% of engineered flooring exports of Jilin province.

“According to Baishan local government's plan, by 2010, the output value of forest product industry will come to 6.52b Yuan, with annual growth rate averaging 27.5%; the profit and tax will amount to 980m Yuan, an average rise of 34.1% annually. In the 2006~2010 period, ten engineered flooring production lines are to be newly introduced, making the production capacity in Baishan soar to 20m m², and the city the largest engineered flooring producing

base,” said an official of Baishan Government.

Government's Role

Contradiction between the supply of forest resources and the demand of growing wood processors, however, arises with the State's restriction on the logging of natural forests, accompanied by the long growth periodicity of trees after logging. Government's efforts in solving the contradiction are to: firstly, strengthen the protection and management of forests of Baishan; and secondly, import timber raw materials from neighboring countries, say Russia.

Efforts, such as making favorable policies in investment promotion and improving urban environment, are also made by the local government to attract more investors to establish wood product further-processing enterprises in Baishan.

Baishan is on the way to becoming the world's largest 3-layer engineered flooring producing base.

New Changes Appeared in China's Imported Wood Market

Since the end of last century, especially in the new century, when Natural Forest Protection Project was formally implemented and a series of policies in favor of timber import, say zero tariffs for logs, were introduced, China's imported wood market has been booming. However, some new changes have appeared in the market since the beginning of 2007, which, compared with previous years, can be generalized as follows:

1) In the first quarter (hereinafter, the same), the import volume of timber totaled 11.2465m m3, up 14.46% compared with the 9.8258m m3 of last year. Although the growth rate roughly holds the line over previous years, or even is a little higher, but, most notably, it was primarily caused by the import of logs.

The log imports hit a new historical high, reaching 9.6246m m3, a rise of 18.82% over last year's 8.1003m m3.

2) Import of other items all shrank to varying degrees in volume this year. For example, there was 1.406m m3 of lumber imported, compared with last year's 1.4496m m3 in the same period, down 3.01%; 23,600 m3 of veneer imported, down 20% over last year's 29,500 m3; as for plywood and fiberboard, the two major kinds of wood-based panels, the import volumes decreased from last year's 105,000 m3 and 141,400 m3 to 77,000 m3 and 115,300 m3, or by 26.67% and 18.46%, respectively.

3) The import gross value this year was US\$1.786847b, increasing by 27.4%,

while last year the number was US\$1.40258b. Of the total, US\$1.29449b was spent on the import of logs, jumping 44.24% compared with last year's US\$897.49m, while the import value of other items almost all dropped.

4) The unit price of import wood items averaged US\$158.88/m3, rising 11.3% over last year's US\$142.75/m3. Though each item saw a price hike, but that for hardwood logs was most remarkable, with the selling price reaching US\$203.53/m3, up 26.57% over last year's US\$161.8/m3. The price of lumber increased most slightly, only by 2.29%, from US\$266.09/m3 to US\$272.19/m3.

Reasons explaining the new changes are diverse, including factors from both domestic and foreign markets. Now they are summed up as below:

1) Great demand of domestic market. The construction area of China reaches 2.18b m2 this year, a year-on-year rise of 21.5%. The demand for timber, as a raw material, for sure will go neck and neck with the rapid development of building material market. The import volume of logs increased 18.82%, roughly the same as the growth rate of construction area.

Some Imported Wood Products in the first quarter of 2006 and 2007 in China

Item	Import Vol. (1,000 m3)			Import Value (US\$1,000)			Unit Price (US\$/m3)		
	Jan-Mar 2007	Jan-Mar 2006	Change Rate (+, -, %)	Jan-Mar 2007	Jan-Mar 2006	Change Rate (+, -, %)	Jan-Mar 2007	Jan-Mar 2006	Change Rate (+, -, %)
Logs	9,624.6	8,100.3	18.82	1,294.49	897.49	49.24	134.5	110.79	21.4
Lumber	1406	1,449.6	-3.01	382.67	385,723	-0.8	272.17	266.09	2.29
Veneer	23.6	29.5	-20	26,538	29,088	-8.8	1,124.49	986.03	14.04
Plywood	77	105	-26.67	39,553	44,210	-10.53	513.68	421.05	22
Fiberboard	115.3	141.4	-18.46	43,596	46,150	-5.53	378.11	326.38	15.85
Total	11,246.5	9,825.8	14.46	1,786,847	1,402,580	27.4	158.88	142.75	11.3

2) Policy guidance. Besides the “zero tariffs” policy for logs, a series of measures, such as imposing consumption tax on, and cutting export rebates for some wood products, have been taken by the state since last year to promote the import of logs. Moreover, to preserve wood resources, excessive consumption for products wholly made of wood is restricted and wood-saving substitutes are much advocated. The effects of these guiding policies are soon seen in the imported timber market of the first quarter: logs were imported in quantity while the export of resource-consuming wood products as well as their production and

development was all effectively controlled. In this way, lumber, veneer and wood-based panels were in less demand, so the import volume of these products decreased correspondingly.

3) High import cost. In the international market, wood producers and exporters are facing increasingly great pressure from environment protection, and wood resources available decrease dramatically. No wonder that the import cost of timber is higher and higher. Today, timber is more and more expensive, especially hardwood that is closely related to people’s lives. The difficulty of importing timber is increasing also.

4) International anti-dumping and patent investigation. The international market more and more boycotts China’s wood products export in large quantity but with low price. China has been the biggest sufferer of anti-dumping for 12 continuous years. Great pressure makes China’s wood processing enterprises necessarily shake off quantity expansion and low-price competition. Therefore, industrial adjustment, enterprise integration, and raising the quality but lessening the quantity of products constitutes another reason explaining the decrease of import of such wood raw materials as lumber and veneer.

African Logs Dominate at Zhangjiagang Port

With the upgrading of Russia and South Asia restricting log export, the sources and species structure of China’s imported wood both have changed gradually. Zhangjiagang market, as the barometer of China’s imported timber, is seeing a steady increase in the number of species and as well volume of imported African wood.

At present, Zhangjiagang imports most African logs for plywood, furniture and

flooring from Central and West African countries, such as Gabon, Cameroon, Congo, Equatorial Guinea; and a few for furniture from such East African countries as Mozambique and Tanzania, in the way of container transportation.

1. Characteristics of Imported African Wood

The most remarkable characteristic of Af-

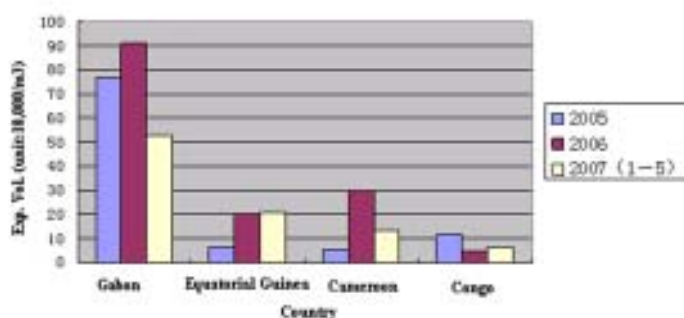
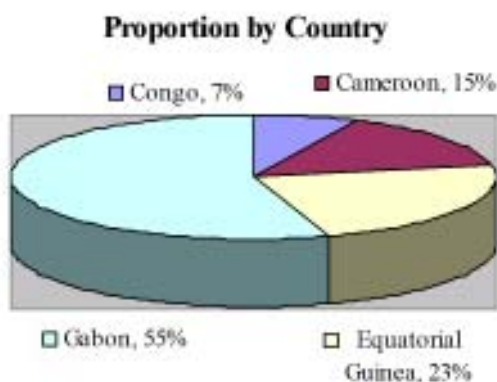
rican wood is the diversity of its species. There has been wood of new species continuously shipped to Zhangjiagang from Africa this year. Of these wood species, some still have no references in China, which brings certain trouble to traders and manufacturers.

1.1 Africa, a New Leading Source of Timber

Since 2005, Zhangjiagang has imported more timber from Africa than from Oceania (primarily Papua New Guinea), so Africa has substituted for Oceania as a new leading source for Zhangjiagang’s timber import. Most imported African timber comes from Gabon, accounting for over 50% (even 77% in 2005). In Jan-May this year, 528,000 m³ of timber has been imported from there and the total import volume this year is expected to surpass that of last year. Of Gabon timber, Okoume for rotary cutting dominates. Please see Table 1, Chart 1 and 2 for specific statistics.

Table 1 Import volume of timber from major African countries since 2005 (Unit: 1,000 m3)

	Gabon	Equatorial Guinea	Cameroon	Congo
2005	771	63	54	113
2006	908	200	302	52
2007(1-5)	528	212	137	63

Chart 1 Statistics of import volume of African timber by countries in recent two years at Zhangjiagang port**Chart 2 Proportion of import volume by country in Jan-May, 2007**

1.2 Export Price Goes up Steadily

We can further learn about the market through analyzing the annual average price of timber from Gabon and Equatorial Guinea since they are Africa's major timber exporters.

From Chart 3, we can see the quoted price of imported timber is rising steadily in recent years, because China's consumption of timber keeps increasing and the international timber market is being more

the seller's market.

1.3 Abundance in Wood Species, Great Difference in Import Volume

African wood is particularly preferred for its large diameter, high percentage of cut-turn and wide usage in the market. At present, wood for plywood mainly includes Okoume, Ozigo, etc; wood for furniture, flooring, and interior decoration refers to over 40 wood species, like Pao Rosa, Wenge, Okan, Sapelli, and Padouk; besides, Ayous, Eyong, etc can be used as the main material of technical wood. (See Chart 4)

1.4 Price of Wood for Rotary Cutting Steady, Hard Wood Price Hiking

Okoume, serving as the most important wood for rotary cutting and a raw material for plywood, is in the greatest supply. Okan from Gabon at present is the most important raw material for solid wood flooring. (See Chart 5)

1.5 Great Price Difference among Various Wood Species

The price of African logs has been on the rise on the whole this year, but price varies a lot among wood species of different quality and usage: the price of some is several times higher than that of some others. For instance, the price of Wenge is over US\$700/m³, while common wood for rotary cutting is only US\$200 plus. The aver-

Chart 3 Average price of imported timber from major countries



Chart 4 Comparison of import volume of popular wood species

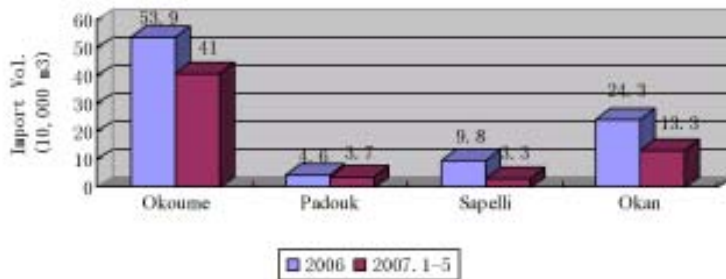
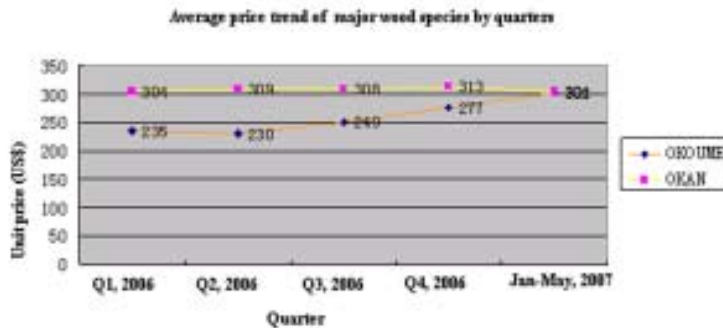


Chart 5 Trend of average price of two major wood species, Okoume and Okan, by quarters



age unit price of popular African logs in Jan-May this year is shown in the Chart 6 on next page.

2. Flow of Logs

Zhangjiagang is the largest trade and distribution center for imported timber in China. With few wood processing enterprises in Zhangjiagang, logs imported from Africa mainly flow to Linyi of Shandong Province, Xuzhou of Jiangsu Province, Jiashan of Zhejiang, and Shanghai, and there are also a few transported to Guangdong. The imported African logs primarily are used for: one, plywood (mainly Okoume and Ozigo); two, rotary cut veneer (good roundness required; mainly flowing to Jiashan, Huzhou, etc of Zhejiang Province); three, furniture (typically Padouk, Pao Rosa; mainly flowing to Shanghai and Suzhou with some to North areas like Hebei); and four, wood-based panels (mainly Kevazingo and Sapelli; flowing to Shanghai Furen Timber Market).

3. China's Current Timber Market

The present timber market situation is serious by and large at Zhangjiagang port: export of flooring is blocked, logs are overstocked and the drop of selling price keeps unchecked. Surrounding ports like Yangzhou port, Taizhou port have seen a similar situation. It's learned that the market price of assorted wood from Papua New Guinea is only around RMB1,000; among African wood species, the price of Okoume is

RMB2,000 or so, Padouk around RMB3,400, Kevazingo round RMB8,000, Wenge about RMB5,000, and Pao Rosa around 8,500. The situation may change for the better around August this year, according to insiders.

Chart 6 Average unit price of popular African logs in Jan-May, 2007



Engineered Flooring to Dominate China's Wood Flooring Industry

Rapid Development, Obscure Prospect

The new century witnesses a rapid development of China's wood flooring industry. In 2006, the total output of wood flooring in China reached 330m m², consisting of 200m m² or 60.6% of laminated flooring, 45m m² or 13.6% of solid wood flooring, 60m m² or 18.2% of engineered flooring, and 25m m² or 7.6% of bamboo flooring, according to China National Forest Product Industry Association. The annual production value of wood flooring is around RMB40b. The data show China has be-

come a big producer of wood flooring in the world. Wood flooring made in China is not only sold in domestic market, but also exported to a wide range of foreign countries and regions, such as EU, the US, Japan and South Korea.

However, there are a lot of difficulties and problems lying in the way of the development of China's wood flooring industry, which, in recent two year, has suffered one blow after another from home and abroad: the sensational Order Event, collection of consumption tax, export rebates readjustment, fierce end-

less competitions, trade barriers in flooring exportation, anti-dumping lawsuit, final failure in 337 investigation, the global price hike of raw materials, etc. All these face the industry the greatest perplexity, pressure and as well test. And it becomes imperative that wood flooring manufacturers adjust industrial structure, improve quality, and form first-class international brands.

Solid Wood Flooring

There will be many constraints on the development of solid wood flooring, such as the shortage of resources, policy adjustment and the changes of ways of consumption. Solid wood flooring is primarily made of nature wood and that of higher grade needs a great deal of rare wood, but the existing domestic wood resources are far from able to meet this huge demand and exports of hardwood from South Asia, Africa, Latin America, and Europe is necessary. Unfortunately, logging in these countries is more and more restricted or even completely banned. In a word, the shortage of rare hardwood has become a bottleneck curb-

ing the further development of solid wood flooring. In addition, the imposition of consumption tax and lowering of export rebates sever also as a constraint. All the above contribute to the decline of the solid wood flooring market.

Laminated Flooring

In recent years, laminated flooring has grown to be the anchor product possessing the largest market share. Its great popularity comes from such advantages: 1) Its base material is medium-high density fiberboard, the production of which can do without the supply of natural rare hardwood; 2) This kind of flooring has uniform colour and luster, is easy to lay and maintain; 3) Laminated flooring withstands abrasion and erosion, and does not easily expand or contract; 4) Diversity with high technology content makes it very favored by the young generation.

But there are obstacles. For example, there are too many laminated flooring manufacturers in the domestic market with keen competition; and the supply has exceeded the demand. Moreover, counterfeit and inferior products exert very bad influence on the market; unvarnished flooring lacks in both quantity and quality. In the international market, China's laminated flooring lacks original, perennial and reputed brands, besides having to frequently face anti-dumping barriers and patent lawsuit from developed countries. In laminated flooring itself, it feels very hard when trod with bare feet and has considerable noises, which for sure fails consumers.

Engineered Flooring

At present, solid wood flooring, lami-

nated flooring and engineered flooring are the three matchable kinds of flooring in domestic market. Though laminated flooring has high market share, engineered flooring sees the highest growth rate, namely 40~50% annually. In the long run, with larger development space and huge potential, engineered flooring will maintain such a high-speed growth in the next few years.

The prospect of engineered flooring is taken as most promising by insiders. This is because:

1) Engineered flooring combines the strengths of solid wood flooring and laminated flooring, and at the same time overcomes their shortcomings. Among the three, engineered flooring has the best equilibrium and stability: its coefficient of deformation only is one eighth of that of solid wood flooring. In the meantime, it won't deform easily with the changes of seasons and humidity, performing much better than laminated flooring in the test of humidity.

2) Engineered flooring feels more comfortable and looks very beautiful and natural since its outer ply is made of rare wood with excellent decoration effects.

3) Engineered flooring is easy to maintain, especially in the north. Though having so many advantages and prominent performances, the price is moderate and steady, being only about RMB200/m² at present, so it's very popular among wage earners.

4) Engineered flooring has mature techniques and definite delimitation of intellectual property rights. In line with

GBT18103 quality standard issued by the state, the quality of China's engineered flooring has been close or even superior to that of European products.

5) Engineered flooring is produced on production lines introduced from abroad, and the production scale and capacity are both well-matched with international levels. The top 10 producers have over half output in the country and a number of outstanding brands have established presence in the international market.

6) 75% of the raw materials of engineered flooring are from fast-growing and high-yield forests. Therefore, a large amount of natural rare timber will thus be saved.

7) Engineered flooring is very popular in Europe, the US, Japan, South Korea, etc where the idea of environmental protection is prevalent. It has long become the mainstream product in the international flooring market, while engineered flooring made in China is very competitive.

To sum up, we can say engineered flooring is an outcome best balancing the demand of international environmental protection, the domestic economic policy of sustainable development, and the favor of consumers. With its mature techniques, stability, comfortableness, natural grains, wide usage, rational price and resource-saving, engineered flooring stands for the development orientation of China's wood flooring industry.

Analysis on Influence of Russia's Raising Log Export Tax

In order to restrict log export and raise the its own wood processing capacity, Russia announced in this February that it will raise the log export tax to 80% (no less than •50 per cubic meter) in 2009. This surely will affect Sino-Russian timber trade. In addition, Russia has to cooperate with other countries if it's to enhance its own wood processing capacity over a short period in the context of lacking equipment, fund and labor force. In this regard, China is right complementary to Russia.

1. Russia's Log Export Tax

Logs are dominant in Russia's wood exportation. According to Russian Far East Customs, Russia exported 17m m³ of wood in 2006, amounting to US\$1.4b, of which 96% was undressed timber. Logs have an increasing proportion in Russia's timber export.

At present, illegal logging is serious in Russia. In 2006, as much as 1.02m m³ of wood was illegally logged. With the purpose of developing the domestic wood deep-processing industry, controlling log export and also cracking down on illegal logging, Russia resolved to raise its log export tax in the next

two years on Feb. 5, 2007. (See the attached chart on page 11)

Besides, a resolution was passed on May 15, 2007 announcing Russia would carry out a zero-tariff policy for lumber export. But with the improvement of Russia's wood deep-processing capacity, export tax for lumber will be collected sooner or later.

2. Responses of China's Enterprises

2.1 Influence on China's Wood Trade

China may import fewer logs from Russia, so the demand for domestic logs and those from other countries will rise correspondingly. The market share of imported logs from Russia will decrease and the price of logs will go up on the whole. In this May, white pine (25 cm in diameter) was quoted at RMB1,000/m³ or so; oak (over 30 cm in diameter) at about RMB2,300/m³, in Suifenhe Port. And in the first quarter in Erianhote Port, Mongolian Scotch Pine was priced at RMB920~990/m³, larch at RMB920~1,010/m³, and birch at RMB830~1,130/m³.

Since Russia cannot improve its lumber

processing capacity in a short time and the cost of logs is high for China's log processing industry, the price of lumber will thereby rise.

The price hike of lumber will press China's wood processing enterprises to seek new sources of lumber supply. Timber from Canada and Africa will be more attractive. For instance, African logs (chiefly from Gabon, Equatorial Guinea, Cameroon, Congo, etc) have become dominant in Zhangjiagang's imported timber market. It's learned that, among African wood species, Okoume was RMB2,000/m³ in this May, Padouk RMB3,400/m³, Wenge RMB5,000/m³, and Pao Rosa RMB8,500/m³ or so.

2.2 Russia: Transition in Policy

Through discussions with Russian wood exporters, we (China Wood International Inc.) learned that 2007 is a transition period in policy, so risks of buying illegally-logged timber from Russian small-sized enterprises and agencies will increase during this period. Russian wood exporters hence suggested that importers had better trade with large-scale enterprises. After the new wood logging policy is formally implemented, illegal logging will be controlled effectively.

At present, some Russian enterprises express that the new forestry policy goes against the development of small wood processing enterprises, because it leaves small enterprises only the alternative of either cooperating with large-scale wood processors or selling factories. Now in Russia, there are many small factories for sale, while some European and

American companies come to Russia to buy these factories, producing semi finished products or finished products with Russia's wood resources and then shipping the products home.

2.3 Sino-Russian Wood Trade Cooperation

Some wood importers think Russia's raising log export tax doesn't mean Russia banning the export of logs, but is expected to, by policy guidance, direct more enterprises to do wood processing business in Russia, and to further encourage export of wood products.

Russia is rich in wood resources, but with weak wood deep-processing capacity, Russia lacks funds, equipment, and labor force. However, China is profuse in all these things. So Russian enterprises warmly welcome Chinese enterprises to go to Russia to establish presence or cooperate with them.

In May 2007, Hongfan Li, President of China Wood International Inc., together with WWF, made an investigation on three large wood export enterprises in Russian Far East and coastal areas. We learned that there had been some Chinese enterprises

coming to Russia to hold talks on cooperation.

Moreover, 3-layer engineered flooring in Russia is in large demand. Russian businesses show great interest in the techniques of producing 3-layer flooring and rotary-cut veneer, as well as the layout of factories. So 3-layer engineered flooring probably will become a priority of investment. Some Russian enterprises think China has established flooring processing center, so they take China as the best cooperative partner.

Attached Chart: Export Tax on Russia Wood

Items	Export tax rate	Jan.1,2007	Apr. 1, 2008	Jan.1,2009
	Min. amount			
Softwood logs	%	20	25	80
	Euro/m ³	10	15	50
Hardwood logs	%	20	20	40
	Euro/m ³	24	24	50
Poplar	%	10	10	80
	Euro/m ³	5	5	50
Semi finished products with bark thickness 15cm or less	%	10	15	50
	Euro/m ³	20	25	80



Prices of China's Imported Timber

12 - Jun, 2007

Name	Description	Price in June 2007 (CNY/m ²)	Price in May 2007 (CNY/m ²)	Change rate	Producing area	Market Location
White Oak	8/4" * 4" * 4',Grade1	6800	6600	3.03%	North America	South China
	8/4" * 4" * 4',Grade2	5400	5400	0.00%	North America	South China
	6/4" * 4" * 4',Grade1	6100	6000	1.67%	North America	South China
	6/4" * 4" * 4',Grade2	5200	5200	0.00%	North America	South China
	5/4" * 4" * 4',Grade1	5300	5300	0.00%	North America	South China
	5/4" * 4" * 4',Grade2	4800	4700	2.13%	North America	South China
	4/4" * 4" * 4',Grade1	5100	5100	0.00%	North America	South China
Red Oak	8/4" * 4" * 4',Grade1	6800	6800	0.00%	North America	South China
	8/4" * 4" * 4',Grade2	5500	5500	0.00%	North America	South China
	6/4" * 4" * 4',Grade1	6400	6400	0.00%	North America	South China
	6/4" * 4" * 4',Grade2	5200	5200	0.00%	North America	South China
	5/4" * 4" * 4', Grade1	5400	5400	0.00%	North America	South China
	5/4" * 4" * 4',Grade2	4100	4200	-2.38%	North America	South China
	4/4" * 4" * 4', Grade1	4400	4500	-2.22%	North America	South China
	4/4" * 4" * 4',Grade2	3400	3600	-5.56%	North America	South China
Ash	4/4" * 4" * 4',Grade2	3700	3700	0.00%	North America	South China
	4/4" * 4" * 4', Grade1	3200	3200	0.00%	North America	South China
	5/4" * 4" * 4',Grade2	4200	4200	0.00%	North America	South China
	5/4" * 4" * 4',Grade1	3600	3600	0.00%	North America	South China
Pine	36cm * 100cm * above3.05cm,Grade3	2400	2400	0.00%	North America	South China
Birch	3.5-5m * 2.0cm * nature wide,no knot	2300-3200	2480-3000		Russia	South China
Mongolian Scotch Pine	5.5m * above3.05m,special grade	2350-2800	2300-2950		Russia	South China
	5.5m * above 3.05m,Grade3	1750-1850	1760-1850		Russia	South China
Pine	38 * 140 * above3.05,Grade3	2500	2500	0.00%	Finland	South China
	38 * 100 * above 3.05,Grade3	2500	2500	0.00%	Finland	South China
	38 * 225 * above3.05,Grade3	2500	2500	0.00%	Finland	South China
Walnut	2.6 * natural wide * 0.05	5200	5200	0.00%		South China
Douglas Fir	0.047m * 0.125m-0.225m * 2.4m-4.0m	1900	1900	0.00%		South China
Yellow Poplar	4/4" * 4" * 4',Grade1	3000	2950	1.69%		South China
	4/4" * 4" * 4',Grade2	2500	2500	0.00%		South China
	5/4" * 4" * 4',Grade1	3300	3300	0.00%		South China
	5/4" * 4" * 4',Grade2	2700	2700	0.00%		South China
	6/4" * 4" * 4',Grade1	3600	3550	1.41%		South China
	6/4" * 4" * 4',Grade2	2800	2800	0.00%		South China
	8/4" * 4" * 4',Grade1	3900	3850	1.30%		South China
	8/4" * 4" * 4',Grade2	2900	2900	0.00%		South China
White Pine	38cm * 184cm * 1.8m above,Grade3	2600	2600	0.00%	Canada	South China
	38cm * 235cm * 1.8m above,Grade3	2600	2600	0.00%	Canada	South China
White Oak	5"*7-16"	10500	10500	0.00%	Canada	South China
Maple	5"*7-12"	11500	11500	0.00%	Canada	South China
Red Oak	5"*9-10"	9800	9800	0.00%	Canada	South China
Pine	120cm * 120cm * 3.05m Grade3	1900	1900	0.00%	Canada	South China
Rubber Wood	2.25" * 2.25",GradeA	3550	3550	0.00%	Malaysia	South China

	2.5" * 2.5",GradeA	3550	3550	0.00%	Malaysia	South China
	3.0" * 3.0",GradeA	3600	3600	0.00%	Malaysia	South China
	3.5" * 3.5",GradeA	3750	3750	0.00%	Malaysia	South China
	4.0" * 4.0",GradeA	3850	3850	0.00%	Malaysia	South China
	3.75" * 3.75",GradeA	3850	3850	0.00%	Malaysia	South China
White Poplar	4/4" * 4" * 4',Grade1	3000	3000	0.00%	America	South China
	5/4" * 4" * 4',Grade1	3400	3400	0.00%	America	South China
Red Poplar	4/4" * 4" * 4',customshop	4500	4500	0.00%	America	South China
	4/4" * 4" * 4',comshop	2900	2900	0.00%	America	South China
	5/4" * 4" * 4',customshop	5000	4900	2.04%	America	South China
	5/4" * 4" * 4',comshop	3700	4000	-7.50%	America	South China
	6/4" * 4" * 4',customshop	5200	5200	0.00%	America	South China
	8/4" * 4" * 4',customshop	5300	5300	0.00%	America	South China
Pine	25 * 100 * above2.44,Grade3	1900	1900	0.00%	North America	South China
	25 * 105 * above2.44,Grade3	1900	1900	0.00%	North America	South China
	30 * 100 * above2.44,Grade3	1900	1900	0.00%	North America	South China
	30 * 105 * above2.44,Grade3	1900	1900	0.00%	North America	South China
	40 * 100 * above2.44,Grade3	1900	1900	0.00%	North America	South China
	40 * 105 * above2.44,Grade3	1900	1900	0.00%	North America	South China
	105 * 105 * above3.05,Grade3	1900	1900	0.00%	North America	South China
	900 * 900 * above3.05,Grade3	1900	1900	0.00%	North America	South China
Rubber Wood	4/8" * 2" * 100-130,GradeAB	3000	3000	0.00%	Thailand	South China
	5/8" * 2.5"-4" * 100-130,GradeAB	3000	3000	0.00%	Thailand	South China
	7/8" * 2" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	7/8" * 2.5"-3" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	1" * 3.5"-4" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	1" * 4.5"-5" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	11/4" * 2.5"-3" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	11/4" * 3.5"-4" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	11/2" * 2.5"-3" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	11/2" * 3.5"-4" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	15/8" * 2.5"-3" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	15/8" * 3.5"-4" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	13/4" * 13/4" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	13/4" * 2.5"-3" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	13/4" * 4.5"-5" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	2" * 2.5"-3" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	2" * 3.5"-4" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	2.25" * 2.25" * 100-130,GradeAB	2900	2900	0.00%	Thailand	South China
	2.25" * 3.5"-4" * 100-130,GradeAB	3250	3250	0.00%	Thailand	South China
	2.25" * 4.5"-5" * 100-130,GradeAB	3250	3250	0.00%	Thailand	South China
	2.5" * 2.5" * 100-130,GradeAB	3250	3250	0.00%	Thailand	South China
	2.5" * 3.5"-4" * 100-130,GradeAB	3250	3250	0.00%	Thailand	South China
	2.5" * 5.5"-6" * 100-130,GradeAB	3250	3250	0.00%	Thailand	South China

Note: The above listed prices are for retail selling, without tax and freight.

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CHINA WOOD MONTHLY MARKET REPORT

Publisher	Hongfan Li	Subscription Rates (1 year, 12 issues):	
		Mail or	USD400 (12 issues)
		E-mail (pdf)	USD440 (12 issues)
		Both mail and e-mail:	USD480 (12 issues)
Managing Layout	Martha Tang	Mail or	USD40 (1 issue)
Editor	Rain Shang	E-mail (pdf)	USD45 (1 issue)
Subscriptions	Allen Shu	Both mail and e-mail:	USD50 (1 issue)
Designer	FeO		

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Beijing Xiangfei Sunshine Media & Ads Co.

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