



Softwood Export Council

520 SW 6th Avenue, #810, Portland, Oregon, 97204-1514, ☎: 503-248-0406, 📠: 503-248-0402

Representing

Alaska
Department of
Commerce

American Institute
of Timber
Construction

California
Redwood
Association

Center for
International Trade
in Forest Products

Evergreen
Building Products
Association

Idaho Department
of Commerce

Industry Network
Corporation

Oregon Economic
Development
Department

OSU Forest
Products

Pacific Lumber
Exporters
Association

Pacific Lumber
Inspection Bureau

North American
Wholesale Lumber
Association

West Coast
Lumber Inspection
Bureau

Western Wood
Products
Association

Wood Moulding
and Millwork
Producers
Association

Western Wood
Preservers
Institute

TRIP REPORT June 15-25, 2000

A. Travelers:

Dick Krieger	Softwood Export Council
Butch Bernhardt	Western Wood Products Association
Erin McClanahan	Hampton Forest Products
Jim Daniels	Owens Forest Products
Rob Rosson	Quantum Windows
John Cahill	PacRim Building Supply
Barry Johnson	Keller Supply
Cap Saheki	Fibrex
Rex Parsons	Parsons Company
Kevin McCoy	OrePac

B. Purpose of Travel:

To meet with AFPA representatives Grace Zheng and Xu Fang; to meet with Chinese lumber importers, secondary manufacturers, and housing developers; to gather information about the potential for US softwood lumber sales in China.

C. Itinerary

June 15-16	Travel from USA to Hong Kong
June 17-19	Meetings in Hong Kong with China staff and Hong Kong industry representatives
June 19	Travel to Shenzhen; meet with housing developers. Travel to Guangzhou
June 20	Meetings in Guangzhou
June 21	Travel to Shanghai
June 21-24	Meetings in Shanghai
June 25	Return to USA

D. Summary of Meetings/Observations

Liming Timber Trading Company H.K. XiangTai Trading Company

These two companies were importers with ties to both Hong Kong and Mainland China. Their scope was broad and included hardwood and softwood logs and processed material. Although they were less familiar with U.S. softwood lumber, they were both well connected and could provide insight to potential future U.S. suppliers.

Xian Hu Villa

This is a housing development in Shenzhen. Materials were provided by two U.S. building product wholesalers – based on the east coast. The homes were all built on-site with the structural material as well as the plumbing, gypsum board, windows, flooring, cabinets being sourced from the U.S. Twenty-three have already been built, with thirty-eight planned in the future.

Although the code system for wood frame construction in China is inconsistent, the imported lumber had to be regraded to Chinese standards. Because of the extreme humidity in the Guangdong province, the project called for imported KD lumber that had treatment individually “painted” on each board upon arrival.

The U.S. supplier sent a technical staff from US to oversee construction. From a framing standpoint, the homes seemed structurally fit. However, the installation of the doors, windows, plumbing, etc. was sub-par. Many of the group members were fearful about the potential problems that would result over the next few years. Home price to the buyer: \$600/m² house and land (\$55.8/ft²).



Although the homes in Xian Hu Villa were structurally fit (above), the installation of windows, plumbing, and other elements were not up to U.S. standards (below).

Dongguan Tomber Market

This area is one of the largest timber markets in China. The majority of product passing through is Beach for furniture manufacture. About 100 manufacturers buy raw materials

from the market, consuming 2000-3000 containers/month. Transactions are completed on a wholesale level.

There is no real American presence. However, market organizers will have an exposition in October 2001. This may be an opportunity for new suppliers to test putting their product in the market. Market officials can also arrange for people to act as agents for US products. They welcomed any interested parties to contact them for assistance in finding Chinese partners.

Guangdong Province Yuzhu Enterprise Group

This group administers a log yard containing primarily German Beech, Southeast Asian and African logs. The log yard supplies the large boat making and furniture industry of the region.

During the visit, the Guangdong Regional Statistician provided a presentation about the Province. Some of his remarks are condensed below:

“Guangdong’s GDP has developed to 1208.494 billion Yuan (RMB) in 1999 from 18.585 Yuan (RMB) in 1978, an increase of 44.52 times in the 21 years. Its per capita GDP has developed to 12,084.94 Yuan (RMB) in 1999 from 369 Yuan (RMB) in 1978, an increase 31.8 times in the 21 years. Its total value of industrial output has developed to 1053.817 billion Yuan (RMB) in 1999 from 20 billion Yuan (RMB) in 1978, an increase of 51.69 times in the 21 years

“Along with the economic development, the annual consumption quantity of wood in Guangdong Province has increased 3.68 times during the last 20 year period, including an increase of 2.79 times for industry oriented wood, and an increase of 8.08 times for construction-oriented wood.

“While the consumption quantity in wood has gained great increase, however the annual output of forest products from the Guangdong Province has reduced from 3.073 million cubic meters in 1979 to 2.4899 million cubic meters in 1999. Starting from 1978, the wood consumption in Guangdong Province has exceeded the production output, and the gap has become greater and greater. Thus it has attracted lots of wood operators at home and abroad each to transport wood into Guangdong Province.

“In accordance with the statistics, China’s imported wood reached 12.86 million cubic meters, an increase of 98% compared with the previous year, including 3.288 million cubic meters imported by Guangdong Province, an increase of 74.9% compared with the previous year. The imported wood by Guangdong Province accounted for 25.56% of that of the whole country.

“In the aspect of the sawed wood, the sawed wood accounts for 45.63% of the imported aggregate for wood. Guangdong imports mace, oak and mainly from pawlownia etc.,

which account for 95%, 82% and 92% respectively in our country. Guangdong imports sakhu, teak and other tropical miscellaneous wood, camphorwood and padauk from Malaysia, Burma and Indonesia. Their import quantities respectively account for 40%, 54%, 10% and 90%. Guangdong imports beech from Germany and France, which account for 35% of our country. Moreover the miscellaneous wood imported from South America, Africa, Malaysia, Indonesia and Russia accounts for 27% of the aggregate for the sawed wood, and about 73% of the corresponding kind of trees in our country.

“From January to April, the wood entering China from the United States reached 100 thousand cubic meters in total. In them, the log is 3,600 cubic meters, accounting for the wood entering China from the United States, and the sawed wood is 96.4 thousand cubic meters, accounting for 96.42% of its wood entering. The conifer wood is 8289 cubic meters, accounting for only 8.29%. The wood imported by Guangdong from the United States in recent years can be summarized as oak, walnut, cherry and maple and parts of *pseudotsuga taxifolia* and Chinese hemlock etc.”

Guangzhou City Property Development & Management Co. Ltd.

This group builds 1,000,000 m² of housing each year, 10% of which are single family. Residential sales price may range from 2000-30,000 RMB/m². They also develop schools and other public institutions. Their net worth will be 20 billion RMB by next year.

Presently, they do not import timber from the US. However, they do import doors, flooring, and concrete forming material.

They will build 400-500 single family homes this year – all structured in concrete. However, they are very interested in incorporating an “American style” single family home into their developments. This may or may not mean wood frame construction, but would most likely contain American fixtures and design.

They would like to partner with a U.S. entity, possibly Evergreen Building Products Association, to construct a demonstration home. They initially offered to buy the imported materials at cost and/or donate the land for the home construction.

The group toured their development on Ercha Island. However, Cong Hua is the area where they are offering land for a demo-house. The house should target a selling price of 500,000 RMB (\$61,000). EBPA initially proposed that providing wood furnishings in concrete/brick style house would be the most efficient mix of Chinese and American products. EBPA will look into possible future partnering opportunities including inviting the company to take part in the upcoming Gateway program.

Consulate General – Shanghai

The Consulate General covers Shanghai and 3 surrounding regions. These areas comprise 11% of population (190 million people), but 25% of China’s economic activity.

The CG can provide American exporters with several valuable services, including advice on trade shows, establishing the legitimacy of Chinese partners, and making business connections via the Agricultural Trade Office and the Foreign Commercial Service.

California Gardens

California Gardens is a middle to upper-middle class housing development outside of Shanghai. So far, 1700 townhouse units have already sold in the first 3 phases. More units are scheduled to be built, and the ownership is looking into creating the same type of development in Beijing and other cities.



California Gardens is on its way to providing thousands of middle-class housing units outside of Shanghai (upper-left). Although residents initially purchase a concrete shell, they will eventually (normally via a contractor) install carpeting, flooring, paint, air-conditioning (left), bathroom cabinets and fixtures (above), and all other normal comforts and necessities associated with a home's interior.

The management company, New China Homes, Ltd. is negotiating with an American developer to build two more sections of 200 and 250 wood frame units.

The wood units will be using Structural Insulated Panels and stick frame interior walls. The structural material will be imported from North America. The remaining components will be sourced from China. The company is not satisfied with the quality of Chinese structural lumber but does think that Russia could potentially provide competitive material.

Although similar past wood frame projects have been halted by the local Fire Marshall, New China Homes explained that it is not so much a question of what the building codes are, but the type of relationship that the company has with the Fire Marshall. They claim that their relationship is sufficient to proceed with the project.

The concrete-based units that presently exist are sold in the usual Chinese style. Residents will buy an empty “shell” unit, virtually void of any fixtures or comforts. They will then, via hiring contractors or themselves install flooring, lights, cabinets, plumbing, etc. The cost of furnishing the unit may run anywhere from 20% to 100% of the original unit price.

For example, the group visited a 150m² - 3 story townhouse that was built in the earlier project phase. The consumer price was approximately \$35,000 for the shell, and furnished with about \$20,000 of interior work.

One interesting note about this earlier unit was that it did not include a carport. The architect told us that the units were designed and built 3-4 years earlier. At that time only about 1 in 500 buyers owned a car. However, in the three years following, the family situation changed dramatically. Now, just about every family has a car. Thus, all new units are designed with a carport.

With the carports came a demand for larger yards and more space for the car. Thus, the newer models that we saw were priced at \$80,000 for the shell, and would likely cost the buyer about \$30,000 for interior furnishing.

The developers estimate that 1 million people in the Shanghai area can afford a California Garden Home.

Taike Holding Co., Ltd.

Developing 800,000 m² high end single family home project in the Beijing area. The development is called “International Friendship Village” and will contain 3-4 story office buildings, 2 story single-family housing, and low-rise apartments. They plan on designing the units in an European or US architectural style with a target sales price of \$200/ft². The group may be coming to the U.S. in August with a Chinese Ministry of Construction mission.

E. Principal Contacts:

Grace Zheng, Director	AFPA Beijing
Xu Fang, Technical Director	AFPA Shanghai
Tate Miller, President	China Western Homes, Inc.
Frankie Shaw, Manager	Dong Guan Hou Jie Xing Ye Timber & Plywood Market
He GuoLiang, Gen. Mgr.	Dong Guan Hou Jie Xing ye Timber & Plywood Market
Zhao Ling	Genius
Zhang Hai Wan, Vice Mgr.	Grandcity Material Equipment Ltd.
TanFuGuang, Gen. Mgr.	GuangDong Province Timber Co.
Li GuangJun, center Pres.	GuangDong Prov. Timber Circulation-Assn.
Li Jingsong, Director	GuangDong Prov. Yuzhu Enterprise Group
Ou Zhao He, Vice Director	GuangZhou City Construction & Development Holdings Ltd.
Liu Yisheng, General Mgr.	Guangzhou City Property Development & Management Company Limited
Jin Yiguo, Senior Engineer	GuangZhou State Land Bureau & Real Estate Administration
Ken Cao, Business Devl. Mgr.	Jebson & Co. Ltd.
Chen Housheng, Mgr.	Li Min Timber Int'l Ltd.
Kouweijun, Dir. of Purh. Dept.	Marketor International Furniture
Michael O'Young, President	New China Homes, Ltd.
Veronica O'Young, Sen. Vice Pres.	New China Homes, Ltd.
Yu Yao Sun, Vice President	Shanghai Yongye Enterprise (Group) co., Ltd.
Xi Zi An, Assistant Gen. Mgr.	Shanghai Xin Goa Choa Group Co., Ltd.
Li Changshan, Vice President	Taihe Holding Co., Ltd.
Henry Levine, Consul Gen.	United States of America
Dr. Cao Guoli, Chief Economist	Yongye Group

F. Conclusions and Recommendations

China is in an incredible stage of development that is far from over. On the one hand, this is still a relatively poor country. Per capita GDP lingers at around US\$1000, although this increases to over US\$3000 if you only include the population of the East Coast cities.

Reforms in the national housing policy contribute to the roughly 12 million annual housing unit starts – about 8 times that of the United States. However, most of the living units will be in low cost concrete homes or multi-family housing, built with all domestic products.

Within all these statistics are some positive aspects as well. A new middle class is developing in China. One who's saving rates have been historically very high. Moreover, banks may now offer mortgages, a new concept to Chinese consumers. This helps to explain the sales success of the first 2000 units in the California Gardens complex. Developers estimate that one million families in the Shanghai area can afford the \$30-80k selling price, and then are able to furnish their shells with at least \$20,000 more of fixtures. If this is true, there is a remarkable potential for housing suppliers.

China's entrance into the WTO theoretically will accelerate the development of the middle and upper-middle class. One example: According to the U.S. Consulate-General in Shanghai, Microsoft will make China its Asian customer service headquarters. This will provide hundreds of Chinese engineers and managers with high-paying jobs, surely leading to higher standards in the community. Depending on how many other multi-nationals follow suit, China's population will eventually develop a much higher purchasing power.

China's WTO entrance will also lower tariffs on imported raw materials for their multi-billion dollar remanufacturing industry.

Forest products will need to be imported into China as well. Mr. Li Zhao of Beijing Forestry University reported that China's population of over 1.2 billion accounts for 22% of the world population. China lacks forest resources with only 13.92% of forest cover totaling 3-4% of the world's forest area. Forest occupies about 133.70 million hectares, with 10.13 billion cubic meters of standing timber – 7th in the world. Because of the large population, the average of the standing inventory per capita is only 8.4 cubic meters. The average forest area per capita is 0.12 ha compares to the world average of 0.64 ha per capita.

Although the group recognized the potential for exports to China, they also had to temper it with the present reality. American products are expensive and in relative terms, top of the line. Enforcement of building and fire codes is inconsistent. Chinese workers experienced with American-style housing are very hard to find.

Thus, China remains a market that should hold extreme interest for U.S. building product suppliers. However, the return on U.S. industry relationship-building and education efforts may take a couple of years. Association-level activities will play a crucial role in leading U.S. suppliers to opportunity in China:

- Seminars addressing wood-frame construction's advantages in China's earthquake zones and assurances of long-term stability and resistance to fire and insects will be critical. Most potential developers that we talked to had concerns about at least one of those issues. Beijing is located in the highest-risk earthquake zone in China. Shanghai is also in a relatively high zone. There is an opportunity to relay the relative success of U.S. style housing surviving the Kobe earthquake disaster. The AFPA offices in Beijing and

Shanghai have already conducted several such seminars, often with U.S. experts coming to provide additional information.

- Groups such as the Taikē Holding Co., Ltd. and Guangzhou City Property Development & Management Co. Ltd. are well-financed developers who have a legitimate interest in exploring American-style housing. However, conversations with them show that they are unaware of the housing options that U.S. suppliers can offer to them. Their lack of experience may be something that only an in-person visit might overcome. U.S. industry should organize a delegation of Chinese developers to visit U.S.-style homes and meet with U.S. exporters.
- Presently, U.S. structures may only be affordable to the upper-middle or higher classes. However, the developing middle-class, who will inevitably purchase a concrete shell as housing, still expects to pay a significant amount for interior furnishings. These provisions are normally provided by contractors who will give the home buyer several functional and style options. U.S. suppliers of mouldings, flooring, cabinets, doors, windows and other wooden fixtures need to target this contractor group to include their product lines in the range of choices available to new home owners.

The U.S. industry must maintain a presence in China and continuously update its contacts and market information. The delegation believes that although the market is new, large, and confusing, that with time opportunities will develop.