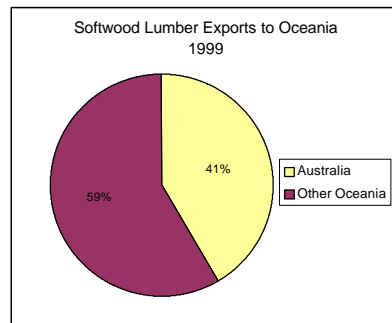
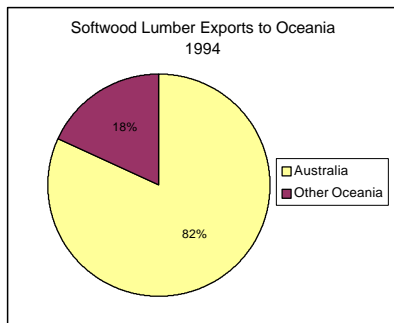


## Oceania Market Report Softwood Export Council December, 1999

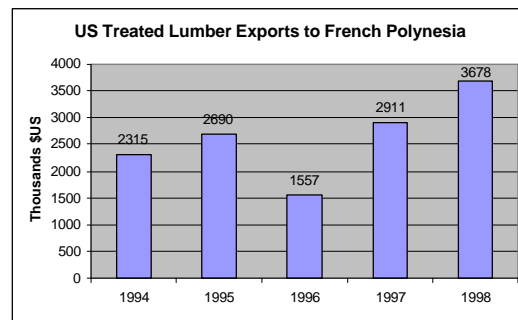
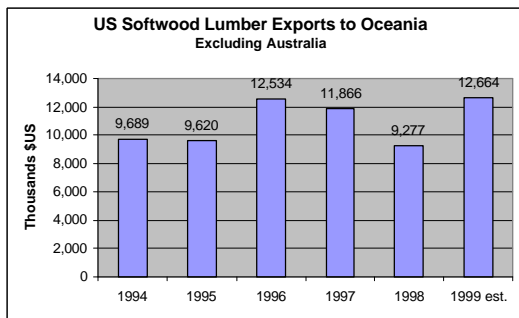
Oceania comprises the island nations in an immense area covering the South Pacific Ocean. The region includes well known countries such as Australia, New Zealand, Fiji, and French Polynesia (often referred to by the name of its largest island, Tahiti). However, it is also home to dozens of lesser known island nations and territories, most of which are heavily reliant on imports for most of their food and building materials.

As sales of U.S. softwoods to Australia decreased during the 1990's, the other island nations that make up Oceania sparked more interest by the U.S. forest products industry.



Exports to the non-Australia region of Oceania of softwood lumber and treated softwood lumber will combine to an estimated \$17.2 million in 1999. The French Pacific Islands alone will finish 1999 as the fifth largest export market for U.S. Douglas fir when measured by value.

Although the usage of U.S. softwood lumber varies throughout the pacific islands, most imported product is treated and used in some sort of construction capacity.



The following markets were investigated by the Softwood Export Council during a December 1999 market mission in conjunction with the Foreign Agricultural Service.

## Palau:

The Republic of Palau (Palau) is an archipelago in the Western Pacific comprised of more than 200 islands, of which only 9 are inhabited. The nearest land masses are the Philippines (550 miles to the west), New Guinea (410 miles to the south) and Guam (815 miles to the northeast).

The total land area of Palau is 170.4 square miles, with Babeldaob, the largest island (20 miles long and 10 miles wide) making up 78 percent of the total. Babeldaob is Micronesia's second largest island after Guam. A bridge attaches Babeldaob to the Island (and State) of Koror, which comprises only 4.2 percent of the land area, but is home to more than 70 percent of the total population, and is the seat of Palau's national government and commercial center. Lying a few miles south of Koror is the uniquely rich aquatic ecosystem of the Rock Islands. The westernmost islands of Palau are closer to Indonesia than to Koror.

As in the rest of Micronesia, Palau's tropical climate changes little from season to season. Temperature averages from a high of 83 degrees to a low of 81 degrees. Heavy rainfall occurs from May to January and is heaviest in June and July. A slightly drier period extends from February to April. Short periods of torrential rains result in more than 150 inches of rainfall a year. Most of the Palauan islands have lush green vegetation throughout the year, with some areas covered by dense rain forests and many varieties of tropical trees, shrubs and other vegetation.<sup>1</sup>

Palau is now an independent nation, but has changed hands over the last three centuries from Spanish, German, Japanese, and American control. The American influence is extremely evident in the educational, political and market structure; stores are stocked with many American products and U.S. holidays are celebrated.

<b>Facts About Palau</b>	
Population (est. 1997)	18,146
Political Makeup	Sovereign Nation since 1994 – Democracy
Currency	U.S. Dollar
Per Capita GDP (1997)	\$US 8,806
Primary Languages	English and native languages
Number of Islands/Number inhabited	343/9
Distance from Los Angeles	7,000 miles
Primary income source	U.S. Compact payments, tourism, services, trade, subsistence fishing, agriculture

*From Bank of Hawaii Economic Report – November 1997*

Although tourism is one of the primary sources of foreign income for Palau, the country is significantly behind Guam, Hawaii and other tourist destinations for Japanese and other Asian visitors. One barrier to expansion is Palau's underdeveloped infrastructure. However, U.S. Congress is paying for a new road to encircle the largest island of

<sup>1</sup> From Bank of Hawaii Palau Economic Report – September 1997

Babeldoab. The road will be completed by 2004 and considerably open up access for resort and golf course development. This is seen as a huge opportunity for Palau to increase its tourism draw. It is also seen as an opportunity for U.S. suppliers to provide lumber for new resorts and treated lumber and pilings for docks. Unfortunately, all telephone and electricity lines that will accompany the new road are planned to be on concrete poles or underground.

**Visits:**

**Anita Suta – Palau Community College (PCC)**

(Also Co-Chair of the National Task Force for Agricultural Development)

Ms. Suta is very well connected in the educational and agricultural community and offered the support of the PCC, specifically as a meeting venue, for any future seminars that the U.S. softwood industry would like to present. Areas of most interest to the community would be 2x4 building standards, wood use in concrete construction, treated softwood use, and protection from termites and rot.

**Tom Watson - Surangel and Sons**

Surangel and Sons is a large retailer and wholesaler of food, construction, and most other consumer products. They also have their own construction branch. Mr. Watson commented that most of the construction in Palau is concrete but that imported lumber and plywood are used in the formation. Imported KD Hem-fir, Standard and better is a common bracing. In addition, 2&better and standard&better Douglas fir is also used as part of the concrete structure. Common sizes are 2"x2", 2"x3", and 2"x4" – all CCA treated.

As container deliveries are less frequent to Palau, one of Mr. Watson's biggest concerns was his ability to maximize the wood volume that he is importing per container. According to him (December 1999), a 40' container from the U.S. to Palau, via Guam, costs approximately \$3600.

He comments that NZ Radiata pine is available, but he has not bought any yet because of a lack of knowledge about the product. Builders are also apprehensive because they are used to building with green treated Douglas fir and don't know what to expect from KD Radiata. Along these lines, he noted the average year round humidity of 80% in Palau.

**Dean Rudimch – Koror Wholesalers/KR Hardware**

Like Surangel and Sons, KR Hardware supplies lumber and building material for construction. Mr. Rudinch's comments were similar to those of Mr. Watson.

2x4 style homes are built in Palau, with 2&better S4S Douglas fir used as the standard; 3&better Douglas fir is typically used in concrete forming applications. In both cases, the wood is CCA treated. Other forest materials that are imported are marine-grade plywood from Malaysia, and SE Asian Lauan and Mahogany for finishing.

**Peter Polloi – Pacifica Development Corporation**

An importing and construction company with essentially the same input as the others. They were importing a mix of Canadian standard&better SPF and U.S. standard&better Douglas fir - CCA treated - for use in concrete forming. They primarily imported 18' lengths for to make 2-9' pieces for use as studs in concrete structures, and 16' lengths to cut in half to use with 4'x8' plywood sheets in interior walls.



*U.S. Douglas fir lumber used in concrete forming in Palau*

**Dean Bates – Black Micro Corporation**

Representing a large construction company throughout Micronesia, Mr. Bates was most concerned about receiving span tables for concrete construction. He added that if Malaysia had more convenient shipping routes to Palau, that the U.S. would lose its share of the concrete forming market, as Malaysian hardwoods would be the cheaper substitute.

**Herman Francisco – Division of Agriculture and Mineral Resources**

Mr. Francisco basically confirmed the fact that very little domestic lumber production occurred in Palau. There are only two active small sawmills and no real statistics on forest harvest. The species that are actually cut on the islands are Nara, Ifil, and Mahogany. But these are primarily used in craft production or interior use. There is no apparent threat of any future shift from imported forest products to domestic materials.

## Fiji/Tonga

The Republic of Fiji is located 1,850 miles (3,000 kilometers) northeast of Sydney, 1,200 miles (2,000 km) north of Auckland and 3,000 miles (5,000 km) southwest of Honolulu. Fiji spans just over 270,000 square miles (700,000 square km) of the southwest Pacific Ocean, and its closest neighbors are Tonga to the southeast and Vanuatu to the southwest. Its total land area of roughly 7,061 square miles (18,300 square km) is 10 percent larger than Hawaii's.

Of the 322 islands that make up the Fijian nation, one-third or 106 are inhabited. Viti Levu is the largest island with 4,011 square miles (10,388 square km). It comprises 58.6 percent of Fiji's land area and is home to about 70 percent of the population. Suva, the capital city, and Nadi, site of Fiji's international airport and some of its best-known resorts, are on Viti Levu. Nadi and the rest of Viti Levu's western coastline offer many more spectacular sites for future hotels and resorts. Just north of Viti Levu is the second largest island of Vanua Levu which accounts for 30.2 percent of Fiji's land area (2,140 square miles or 5,538 square km) and 15 percent of the population.

English is the main, though not exclusive, language of business and commerce, and is widely spoken along with native Fijian and a variation of Hindi among Fiji's Indian community.<sup>2</sup>

<b>Facts About Fiji</b>	
Population (est. 1998)	827,271
Political Makeup	Independent Nation within British Commonwealth since 1970 – Democracy
Currency	Fiji Dollar (Fiji\$1.9 = US\$1 in Dec. '99)
Per Capita GDP (1997)	\$US 2,637
Primary Languages	English, Fijian, Hindi
Number of Islands/Number inhabited	322/106
Distance from Honolulu	3,000 miles
Primary income source	Agriculture, tourism, mining, light manufacturing

*From Bank of Hawaii Economic Report – September 1998*

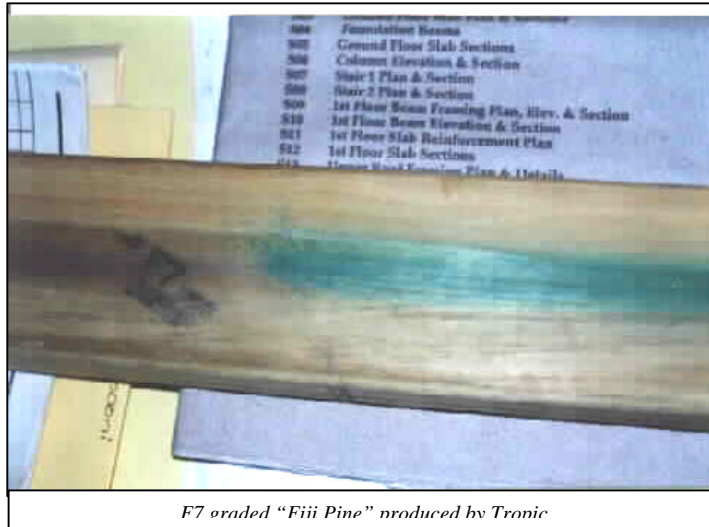
### Visits:

Various visits with Fijian construction companies and materials suppliers made it very clear that Fiji is virtually self-sufficient in its consumption of softwood lumber. There really is no opportunity for U.S. exports for common use in Fiji construction.

The majority of Fiji's pine harvest (*Carribeus Pinus*) is processed by Tropic, a partnership between the Fiji Government and private investors. Tropic mills, dries, pressure treats and grades pine to Australian standards for construction (metric sizes and F and H grades).

<sup>2</sup> From Bank of Hawaii Fiji Economic Report – September 1998

The only niche market identified as a possibility for the U.S. would be F8-F11 strength grade equivalent lumber for high-strength engineering specifications. Tropic does not produce a high volume of timber to meet this need. However, the majority of wood used for construction is F5 grade and readily available.



F7 graded "Fiii Pine" produced by Tropic

One builder estimated that 700m<sup>3</sup>/month of wood are used in home construction. 60% of this total is pine, almost all of which is produced in Fiji. F5 lumber is selling at Fiji\$400-460/m<sup>3</sup>. New Zealand Radiata pine is imported as well sometime.

Meeting with industry officials made it clear that there was not much market potential for U.S. products in large quantities in Fiji. However, in Fiji's neighboring island nation of Tonga, U.S. products were still widely used.

<b>Facts About Tonga</b>	
Population (est. 1997)	99,000
Political Makeup	Independent Monarchy within British Commonwealth
Currency	Pa'anga
Per Capita GDP (1997)	\$US 1,262
Primary Languages	Tongan, English
Number of Islands/Inhabited	150/36
Distance from Honolulu	3,100 miles
Primary income source	Agriculture, Tourism

*From Bank of Hawaii Economic Report – November 1997*

Tonga is just west of Fiji and survives as the last monarchy within Micronesia. It has a population of 100,000 living on 36 of its 150 islands.

Via U.S. Embassy resources, we were able to telephone an importer in Tonga. He explained that Douglas fir has long been the choice for structural use. However, often there are questions about the correct usage of U.S. materials, and to this point there has not been any technical support. Thus, imports from Fiji and New Zealand have increased. He hoped that a visit from U.S. industry could be arranged to help their construction industry better understand products.

The Tonga Annual trade report indicates that Tonga imported roughly \$1 million of U.S. lumber and \$1.3 of New Zealand lumber in 1998. Attached are names collected by the U.S. Embassy in Fiji of companies involved in construction, forestry, or the importation of building materials.

## French Polynesia

French Polynesia is located in the South Pacific roughly halfway between the eastern coast of Australia and the western coast of Central America. It lies 2,800 miles slightly southeast of Hawaii within the tropics and in the same time zone as Hawaii. With trade winds blowing from the southeast, French Polynesia's climate is virtually identical to Hawaii's. Tahiti, French Polynesia's largest island, has an average annual temperature of 79 degrees Fahrenheit and an average annual rainfall of around 50 inches.

The five main archipelagos forming French Polynesia are scattered across nearly two million square miles of the South Pacific Ocean. The Society Islands are made up of the Windward group including Tahiti and Moorea and the Leeward Islands including Bora Bora, Raiatea and Huahine. The crescent shaped Tuamotu Archipelago lies between the Society Islands and the Marquesas group. The Tuamotus include more than 80 atolls, the largest of which is Rangiroa. The Gambier Islands form the southeastern tip of the territory and total ten small islands, and the five Austral Islands are the territory's southwestern tip.

The 130 islands that make up French Polynesia have a land area of slightly more than 1,600 square miles, but the territory's exclusive economic zone covers nearly two million square miles. Geologically the islands range from the high volcanic peaks of Tahiti and the other Society Islands to the atolls of the Tuamotus. Most of the islands are mountainous with deep valleys and are generally surrounded by coral reefs and sheltered lagoons. Coastal roads ring most of the larger islands, and inter-island transportation is provided by a well-developed system of ferries and inter-island steamships as well as domestic air service.

French Polynesia is an overseas territory of France and considered an integral part of the French Republic.<sup>3</sup>

<b>Facts About French Polynesia</b>	
Population (est. 1998)	226,000
Political Makeup	French Territory
Currency	French Pacific Franc US\$1=FPF120 (1999)
Per Capita GDP (1997)	\$US 18,100
Primary Languages	French, Tahitian
Number of Islands	130
Distance from Los Angeles	4,100 miles
Primary income source	French Subsidies, tourism, pearls

*From Bank of Hawaii Economic Report – 1999*

<sup>3</sup> From Bank of Hawaii French Polynesia Economic Report - 1999

**Visits:**

**Augustine Shan SeiFan – Technical Consultant: Ministère de l’Agriculture et de l’Elevage (Ministry of Agriculture and Farms)**

French Polynesia has planted Caribbean pine in plantations since 1977. Most of the pine is located in the Australe and Marquise Islands. However, their purpose is to supply wood to the distant islands with low population and fewer ties to the main island groups. She also indicated that all telephone and electricity poles in French Polynesia are wood and imported.

**J. J. Jorda – President: Polybois**

Mr. Jorda has been importing Douglas fir and Hemlock from the U.S. for 25 years. He found it cost competitive to start his own exporting branch in the U.S. than to work through U.S. exporters. The branch company, “Pacific Interwood International” is located in Los Angeles and, according to Mr. Jorda, is the #1 softwood lumber exporter to Tahiti and Moorea, shipping roughly 12,000m<sup>3</sup> of dimension from North America in 1998. Because of quality issues and a favorable exchange rate, he is now sourcing more construction material from Canada than the U.S. A few of his customers have been very disappointed lately with the high grades of Douglas fir that he has sourced from the U.S.

The standard imports for construction are #1 grade for 1”, #2 or standard for 2” material. Wall studs are 2” x 3” x 8’. All framing lumber is CCA treated. They have also imported 1” KD SPF boards for flooring.

The import duty through December 1999 was 18% with a 4% VAT for treated and untreated sawn softwood. On January 1, 2000, the duty will drop to 12%, but the VAT will rise to 9%.

**Jean-Emmanuel Anestides – President: STAM**

STAM is a construction supply wholesaler, builder, and manufacturer of cabinets, doors, wall panels, and other wooden fixtures. Their construction arm, Technibois, uses Select Structural or #1 grade Douglas fir in the roof and structure of over-water resort bungalows that sit on stilts in Tahiti’s inlets. They require a higher level of wood treatment because of the proximity to salt water. They had recently completed a bungalow project for a major resort hotel in Bora Bora that required 1,500m<sup>3</sup> of Douglas fir. They also prefer cedar shingles in their projects. He has been confused lately about the quality of U.S. Douglas fir that he has ordered and said that the inconsistency has caused Technibois to lose contracts in the past. He insists that he is willing to pay higher prices if the quality is guaranteed.

Sometimes, for the benefits of lower tariffs, STAM imports full sawn Western Red Cedar and Douglas fir and then will resaw it into 1”x4” and 1”x6” boards for siding and interior paneling.

According to Mr. Anastides, Radiata pine is recognized as costing about the same as Douglas fir, but having about 30% lower strength characteristics, thus little is imported. He also notes that he has never has a termite problem in 30 years.



*Above left: Tahitian Resort Bungalows; Above right: Hotel in Papeete with all Douglas fir beams in entry way  
Below left: Typical OTHS and FEI home using wood frame; Below right: Treated Douglas fir in exterior use in OTHS home*



### **Jean-Christophe Buisson – Minister of Housing**

French Polynesia has instituted two social programs to build homes for its citizens. The first program is the OTHS (Office Territoriale de l'Habitat Sociale), and will provide on average 1000 new homes per year on the principal islands of Tahiti and Moorea from 2000-2004. Homes are all patterned after the same blueprint and are 54 or 74m<sup>2</sup>, depending on the size of the family receiving the home. Target cost for home construction is FPF85,000/m<sup>2</sup> (\$73/ft<sup>2</sup>).

The FEI (Fonds d'entraide Inter-îles) is the second social program. It is charged with providing a lower number of social homes to the islands beyond Tahiti and Moorea. FEI also replaces (free of charge) homes on any part of French Polynesia that are destroyed by storms. French Polynesia does not have regular cyclones pass, but they do occur every few years. Most homes destroyed by weather are not professionally built wood frame. But all homes that are replaced by the FEI are. Mr. Jacques deRue, Director of FEI added that presently, FEI plans already specify use of treated Douglas fir for framing.

### **Claire Viricel-Neira – Director: EMGT**

EMGT is a company on the Papeete port area that consolidates housing packages for use by companies who are contracted out by OTHS and FEI to build government sanctioned

homes. One problem lately is that government, as well as EMGT employees, has the authority to reject any part of the housing package that they feel does not meet standards. Some past shipments of U.S. Douglas fir have been rejected at this level by people who do not understand American lumber grading systems, but simply do not like the presence of “too many knots”, thus they return the load.

The company also sources untreated green S4S Utility-grade U.S. Douglas fir and Canadian Hemlock for pallet building. They use 1”x4”, 1”x6”, 3”x3”, 3”x4”, and 2”x3”.

**Gerard Siu – President: Sin Tung Hing**

Claims that Carter Holt Harvey is starting to push some dimension KD treated Radiata into French Polynesia. However, he says that the biggest competitor to U.S. forest products is steel and concrete. People generally feel that steel and concrete homes will be more durable, safe, and free of insects than wood.

He does buy treated U.S. Douglas fir for construction: #1&Btr for 2” material, #2&Btr for 3” material. He would like grade stamp training available for those involved with the construction of government regulated homes, especially agents of EMGT. He also sees a need for training on proper use and specification of treated lumber.

He is looking for substitutes to CCA treated lumber because people often burn scraps of wood left from job sites for heat and cooking – fumes from CCA may be dangerous.

## **Conclusions/Recommendations**

Although the markets of the South Pacific are relatively small individually, they combine to form a \$17+ million market for treated and untreated U.S. softwood lumber. Because of tradition, U.S. lumber has been the unquestioned choice in Palau, Tonga, and French Polynesia. However, during the past few years, as it has become easier to import from many world markets, South Pacific importers have looked to other sources for their wood.

Luckily, U.S. lumber already has a perceived quality in these markets, but as the grades of some shipments have arrived inconsistently, and as substitutes appear, importers may not be sure why they are using U.S. lumber in the first place.

Importers, wholesalers, builders, and government officials in Palau and French Polynesia all have a hand in specifying and controlling what lumber is used in building projects. The U.S. softwood strategy should reinforce and reassure these markets that U.S. softwood lumber is of high quality and value. It should also evaluate some of the other markets in Oceania that could not be covered during this first mission.

To initiate this strategy, U.S. industry should conduct the following activities:

Conduct a trade servicing mission to French Polynesia to work with importers, builders, and government officials. Through seminars and visits, the mission will educate the target audience on U.S. grades and species of treated and untreated softwood lumber, including grade stamp recognition, storage, specification, correct usage, and other important information; provide technical literature and contact information in the U.S. for further support. French Polynesia should be the first priority for U.S. activities in Oceania.

Conduct a trade-servicing mission to Palau similar to the mission to French Polynesia using similar elements and targeting the same audience. The Palau mission will be oriented towards concrete forming with U.S. softwood instead of wood frame construction.

Evaluate Tonga and the Federated States of Micronesia as potential markets, which may need future trade servicing or other U.S. industry activity.

In each of the above cases, U.S. industry should identify potential private, association, or government representatives that would be good candidates for a future; U.S. sponsored trade mission to the U.S. West Coast. Such a mission would allow a South Pacific delegation to visit U.S. mills, treating facilities, suppliers, and examples of products in use. The delegation would spend about one week in the U.S., hosted by an industry organization. Past delegations have returned to their respective countries with a much broader knowledge and a greater perceived value of U.S. softwood products. Delegation participants are also typically influential members of the regional wood product distribution channel and may sway others to try U.S. products.