



# Hardwood Markets & The Issue of Log Exports



**Hardwood**  
PUBLISHING

Dan Meyer

# Outline

- Brief Market Recap
  - To set the stage for...
- Log Export Discussion
  - Industry perception
  - Government stats
  - Question: What can we/should we do about it?
  - What if we don't?
  - No easy answers
    - I will not be suggesting any

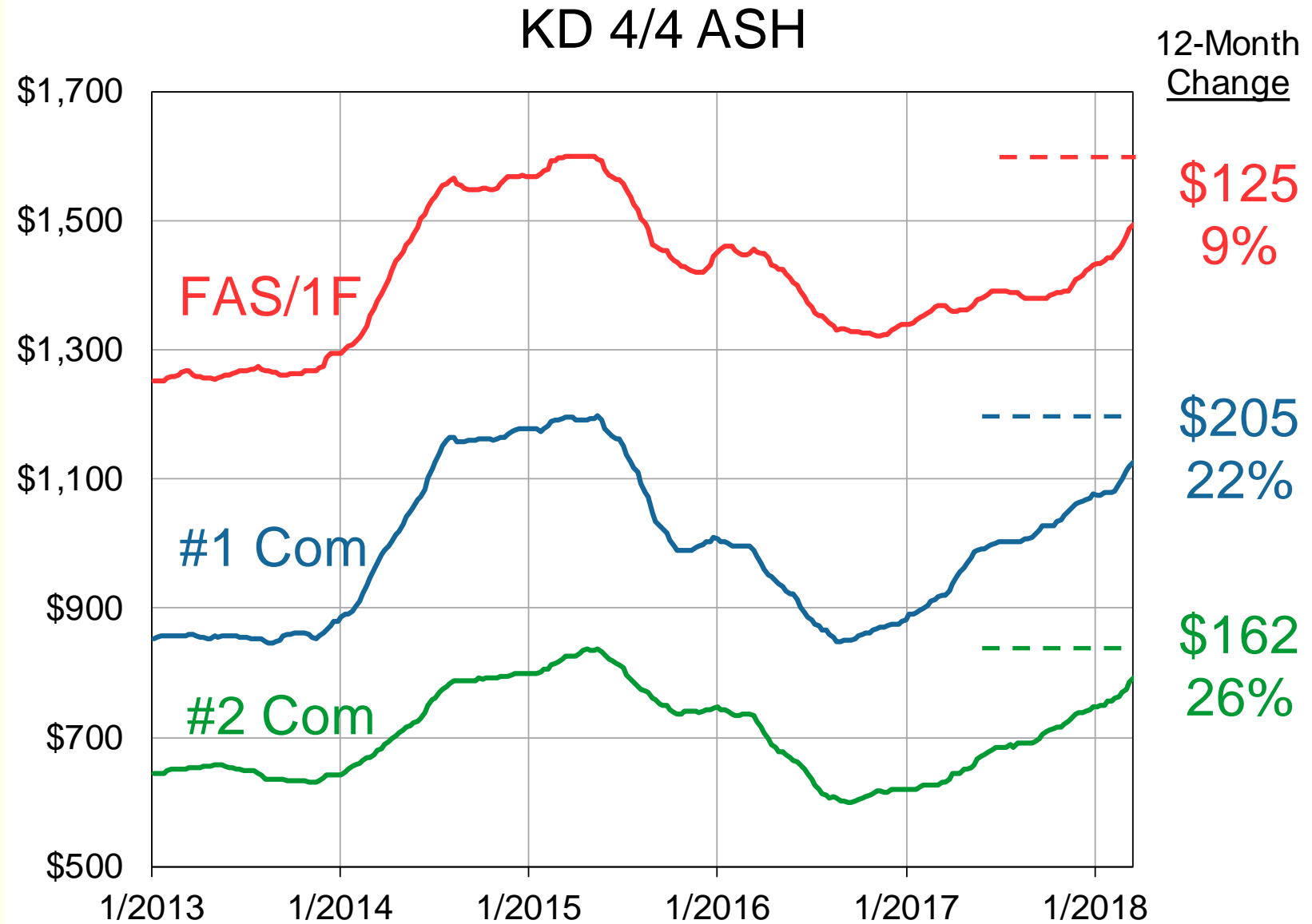
The background features a close-up of a branch with several large, green, lobed leaves. A cluster of small, round, light-colored fruits, possibly walnuts, is attached to the branch. The text "Market Recap" is overlaid in the center in a bold, black font with a yellow shadow effect.

# Market Recap

# Big Picture

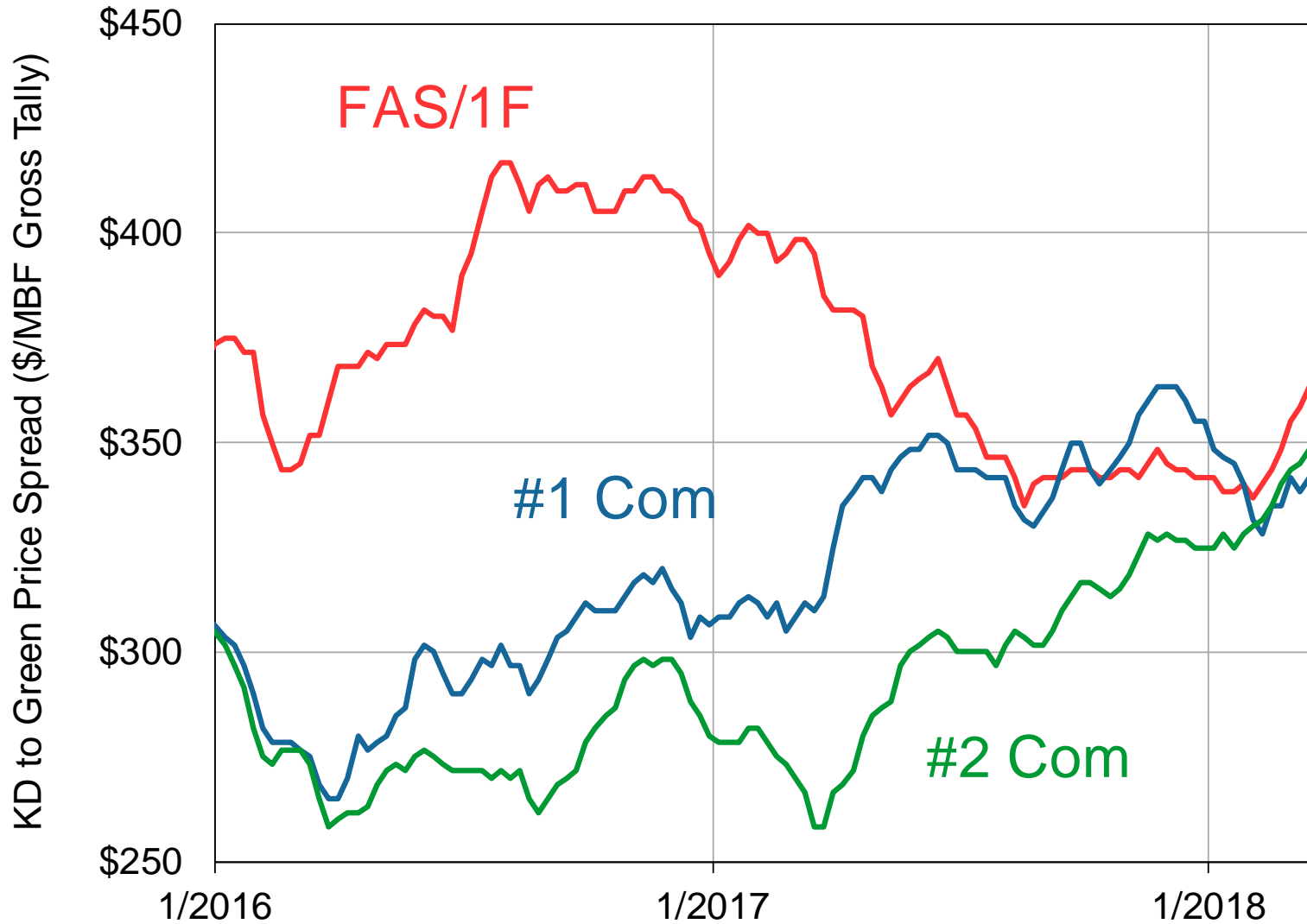
- KD lumber pricing strong
  - Cherry, Walnut at 5-year highs
  - Ash, White Oak approaching
  - Red Oak, Common Poplar have a ways to go
- GN lumber just as strong
- Margins tighter, especially for uppers

# Lumber Prices – ASH



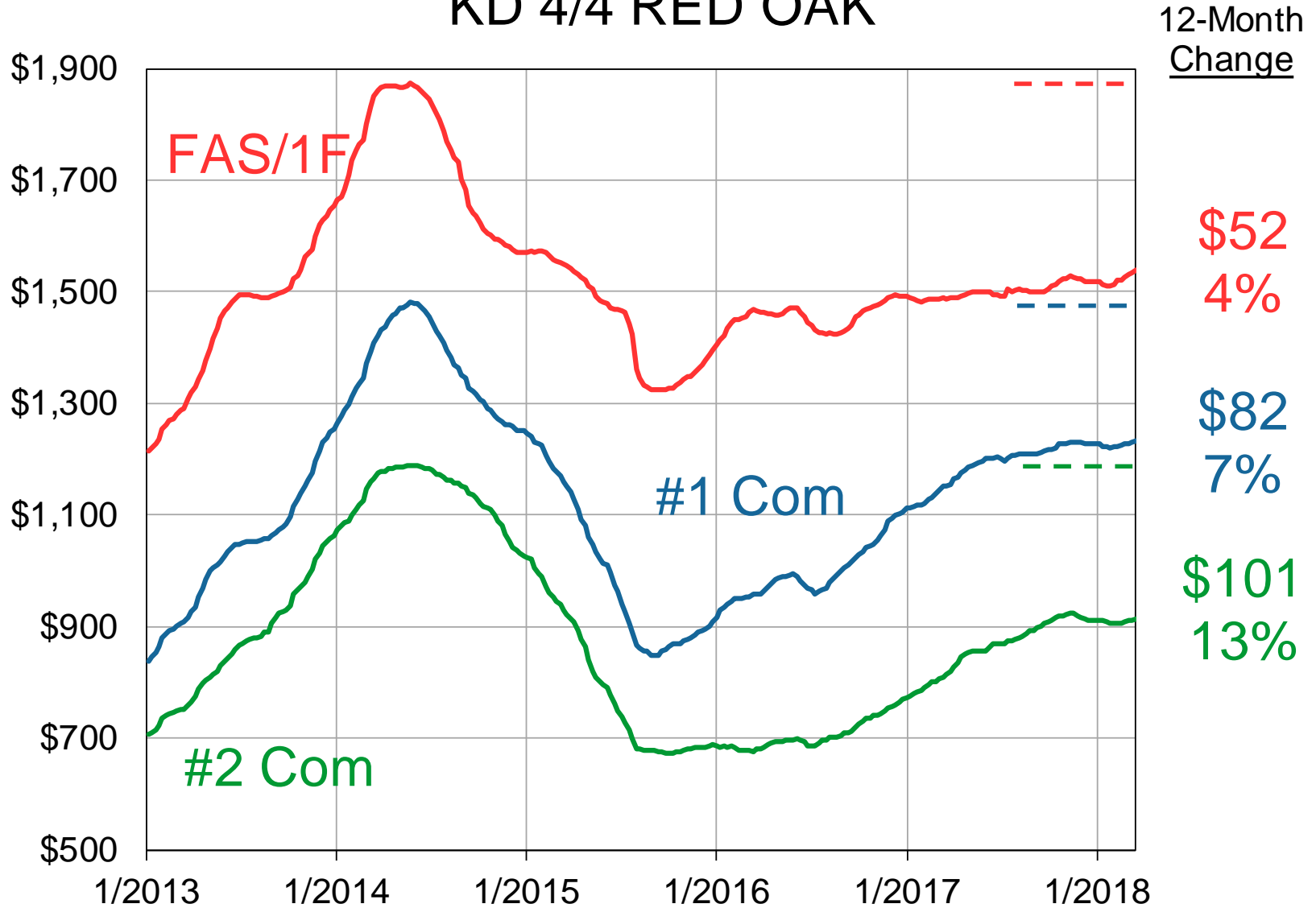
# KD Margins – ASH

## 4/4 ASH Margins



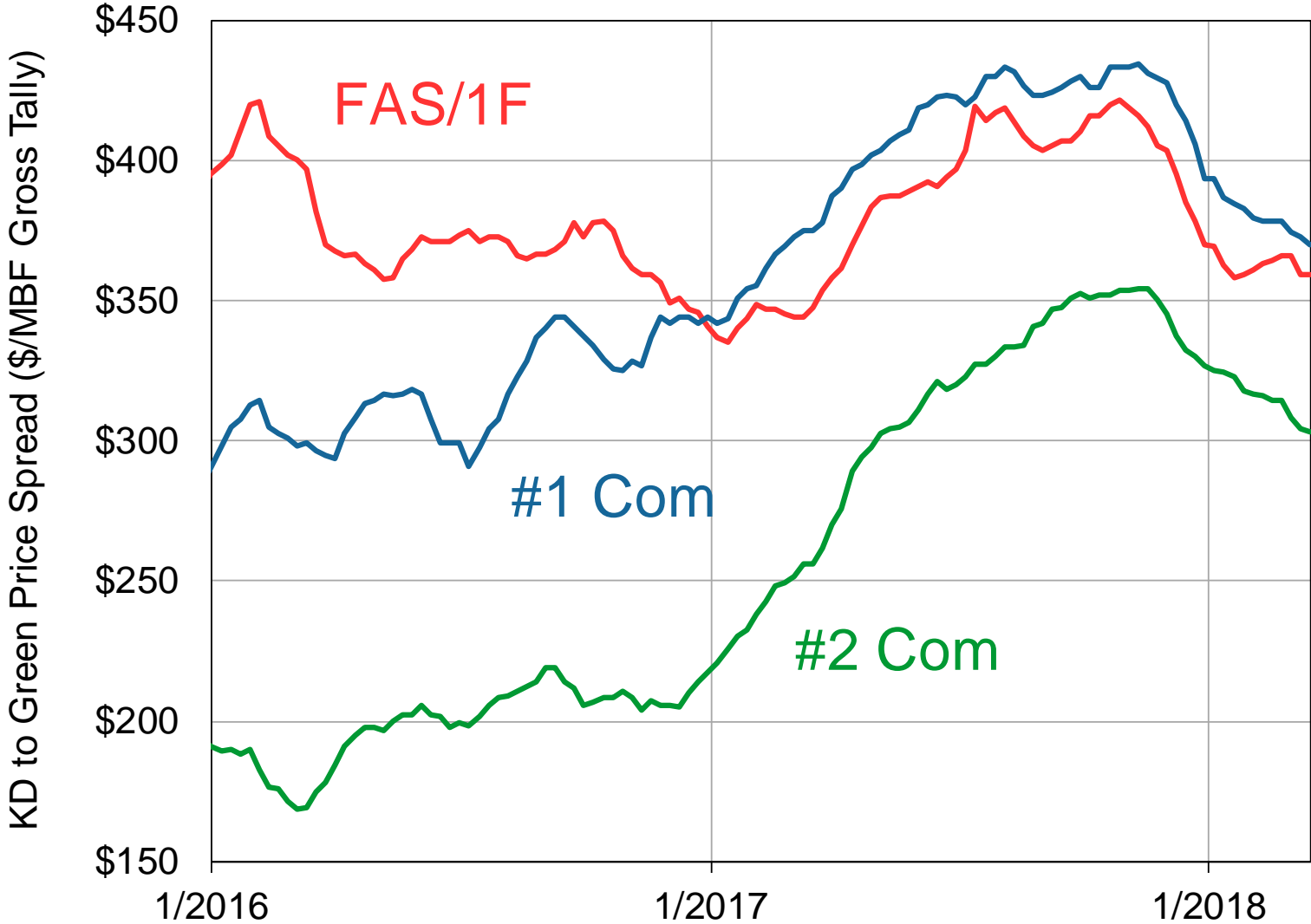
# Lumber Prices – RED OAK

## KD 4/4 RED OAK



# KD Margins – RED OAK

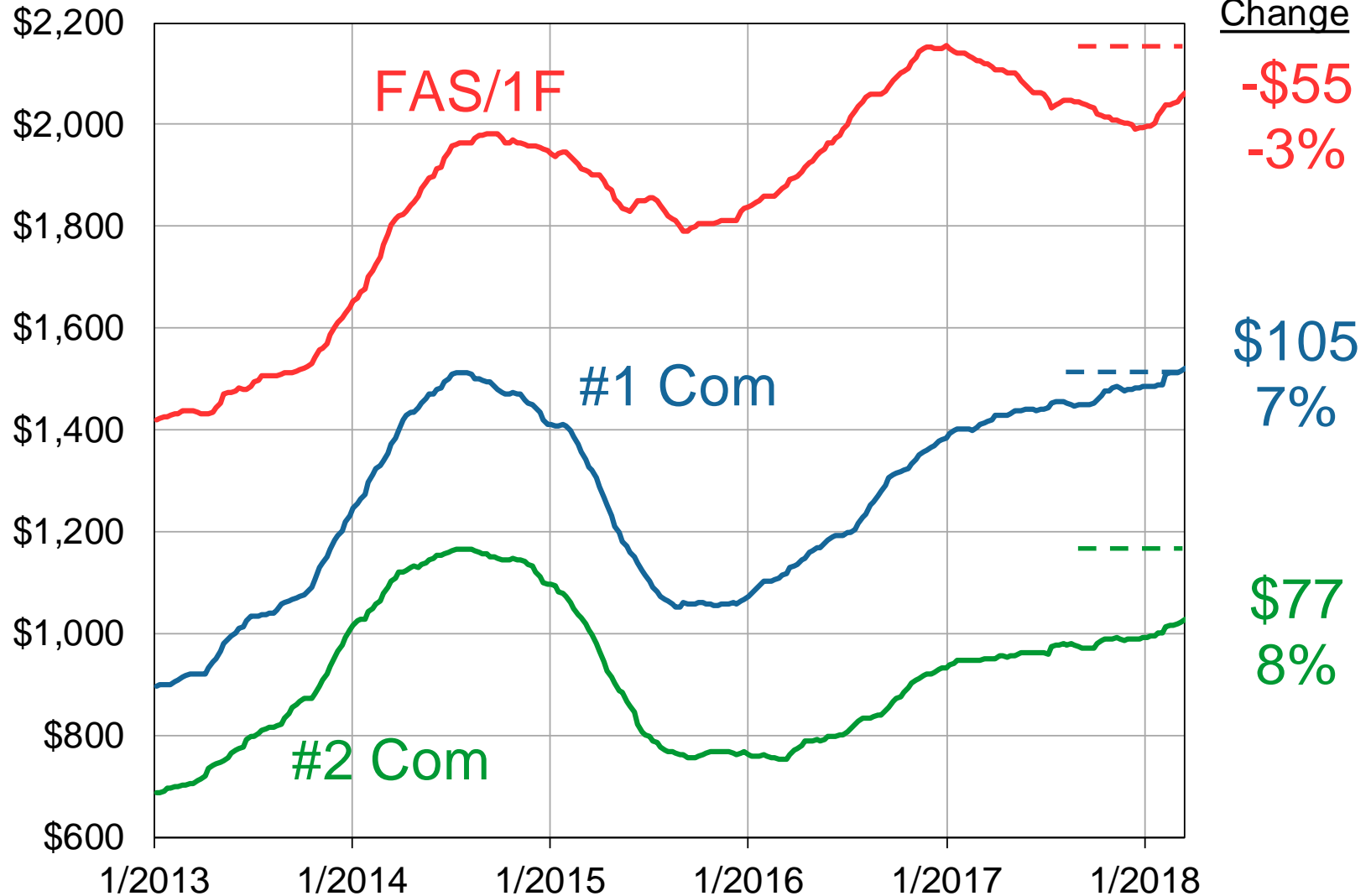
## 4/4 RED OAK Margins





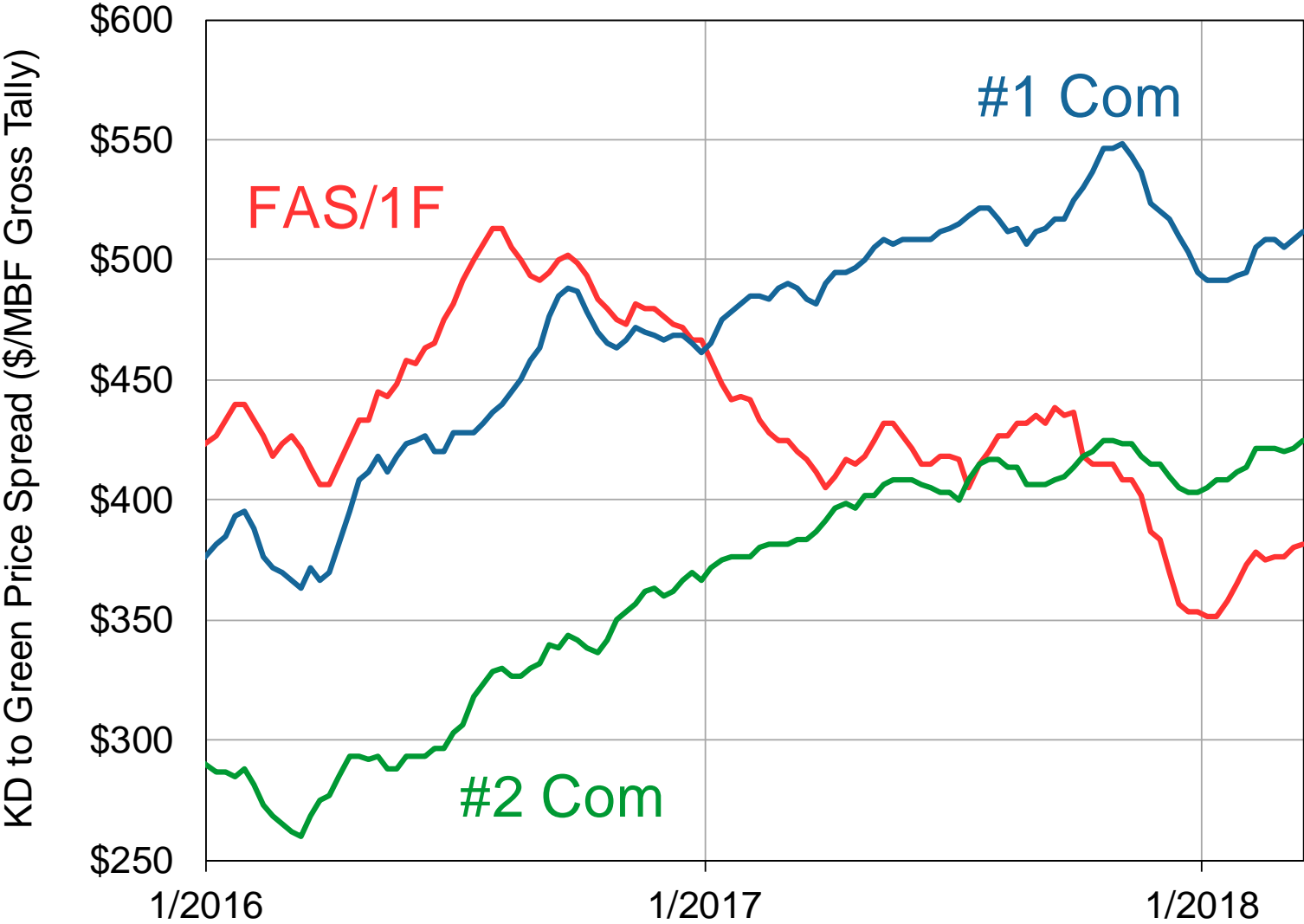
# Lumber Prices – WHITE OAK

## KD 4/4 WHITE OAK



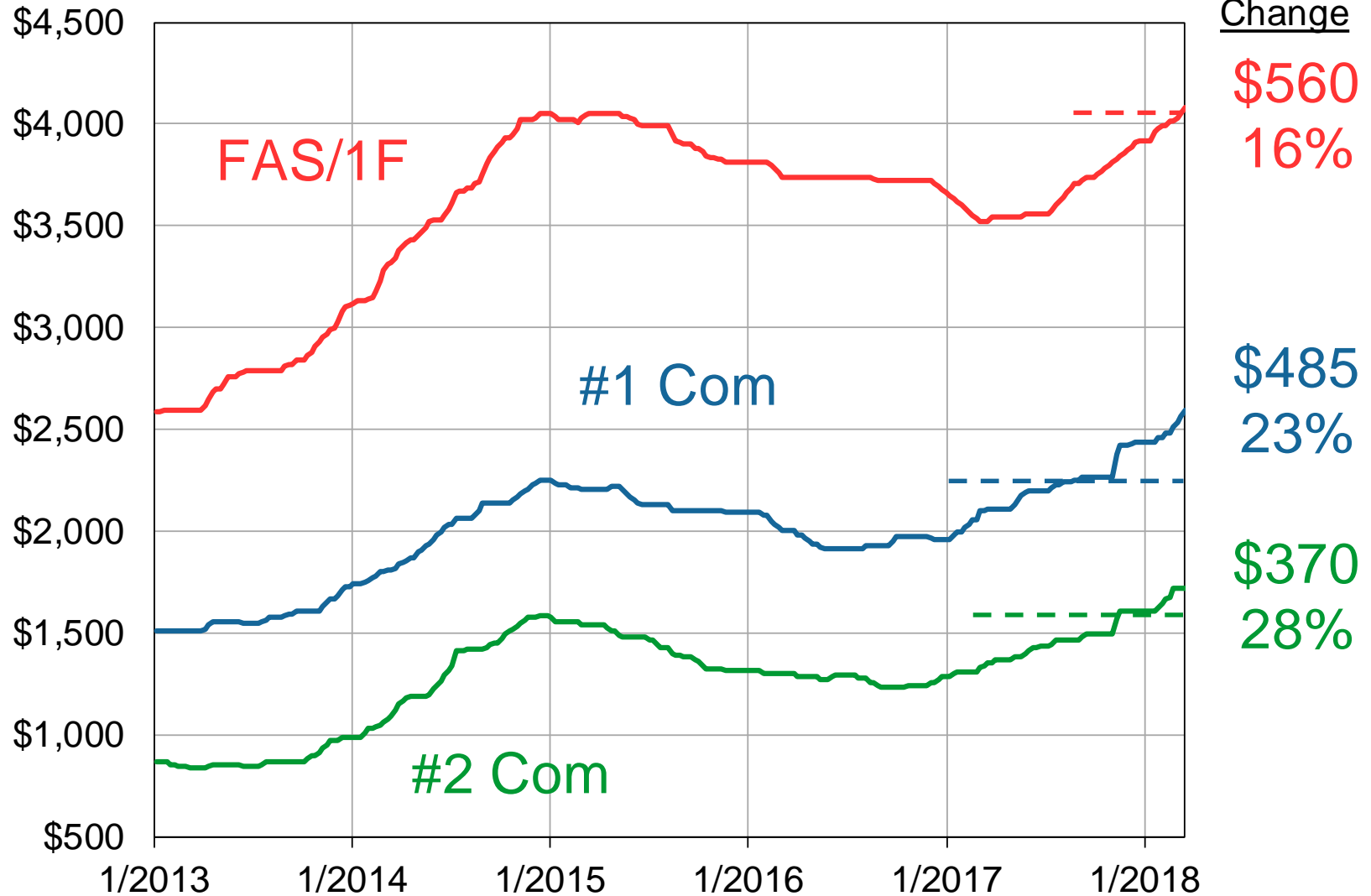
# KD Margins – WHITE OAK

## 4/4 WHITE OAK Margins



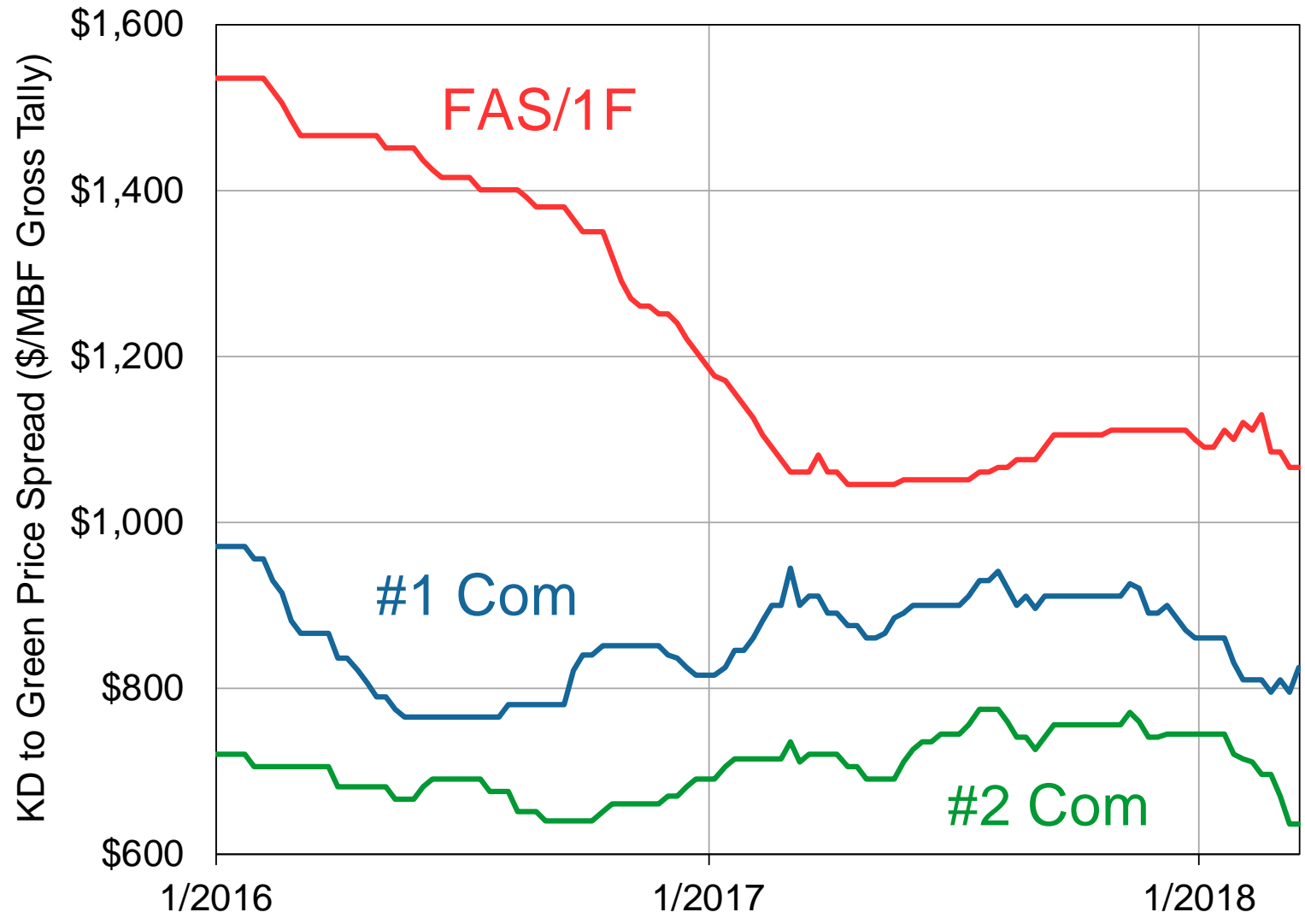
# Lumber Prices – App. WALNUT

## KD 4/4 APPALACHIAN WALNUT



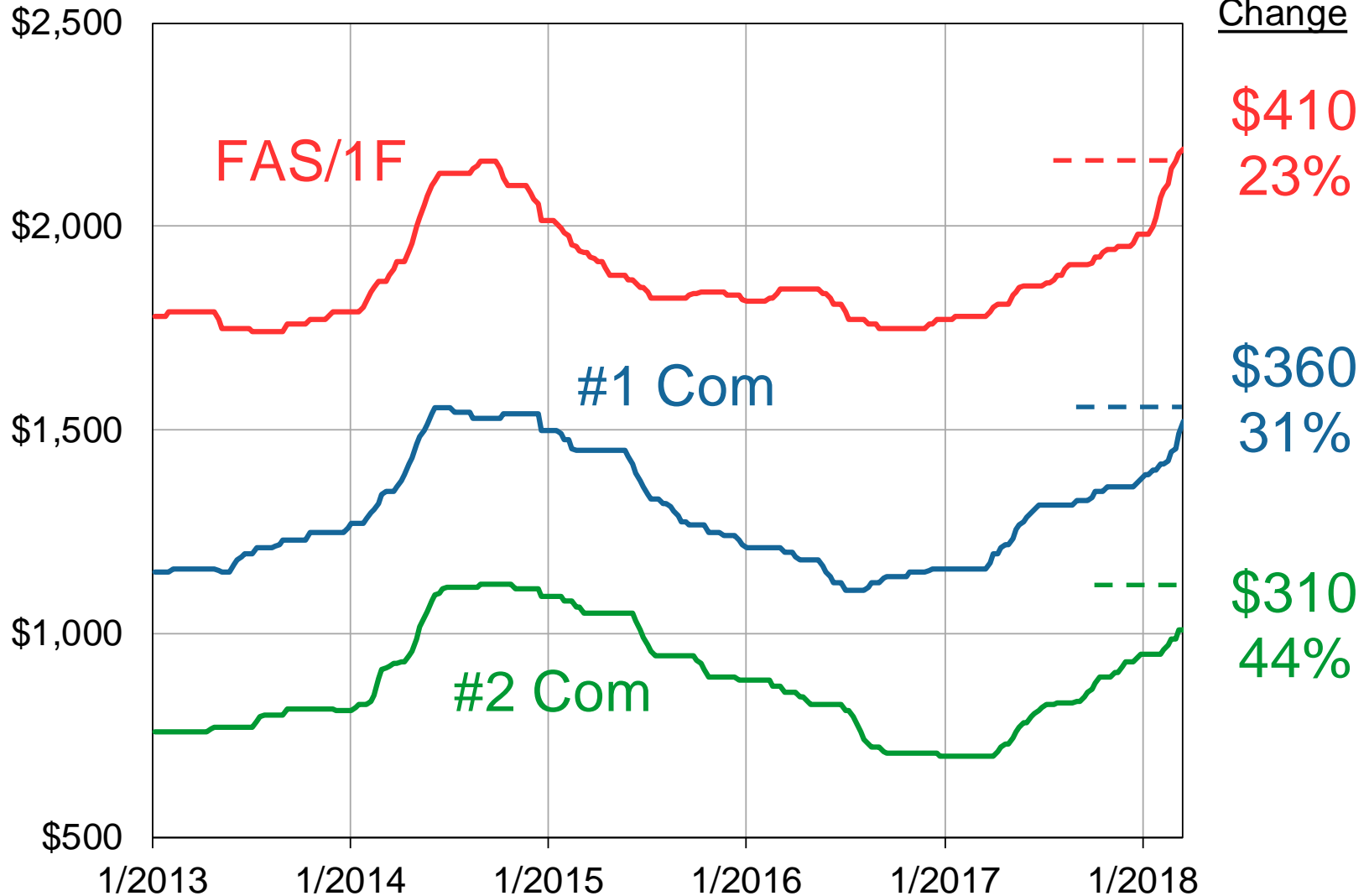
# KD Margins – App. WALNUT

## 4/4 App. WALNUT Margins



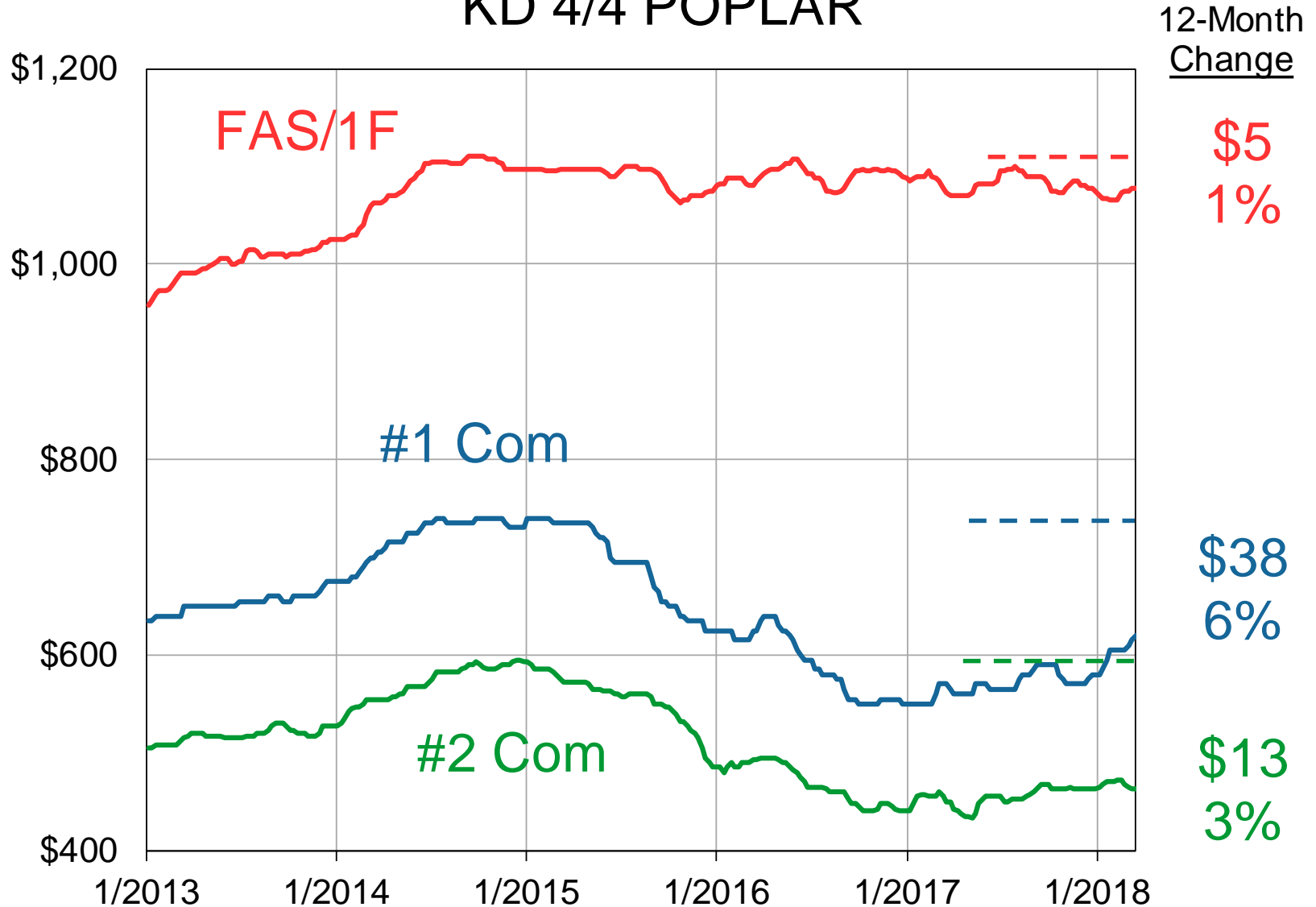
# Lumber Prices – App. CHERRY

KD 4/4 App. 90/50 Red CHERRY

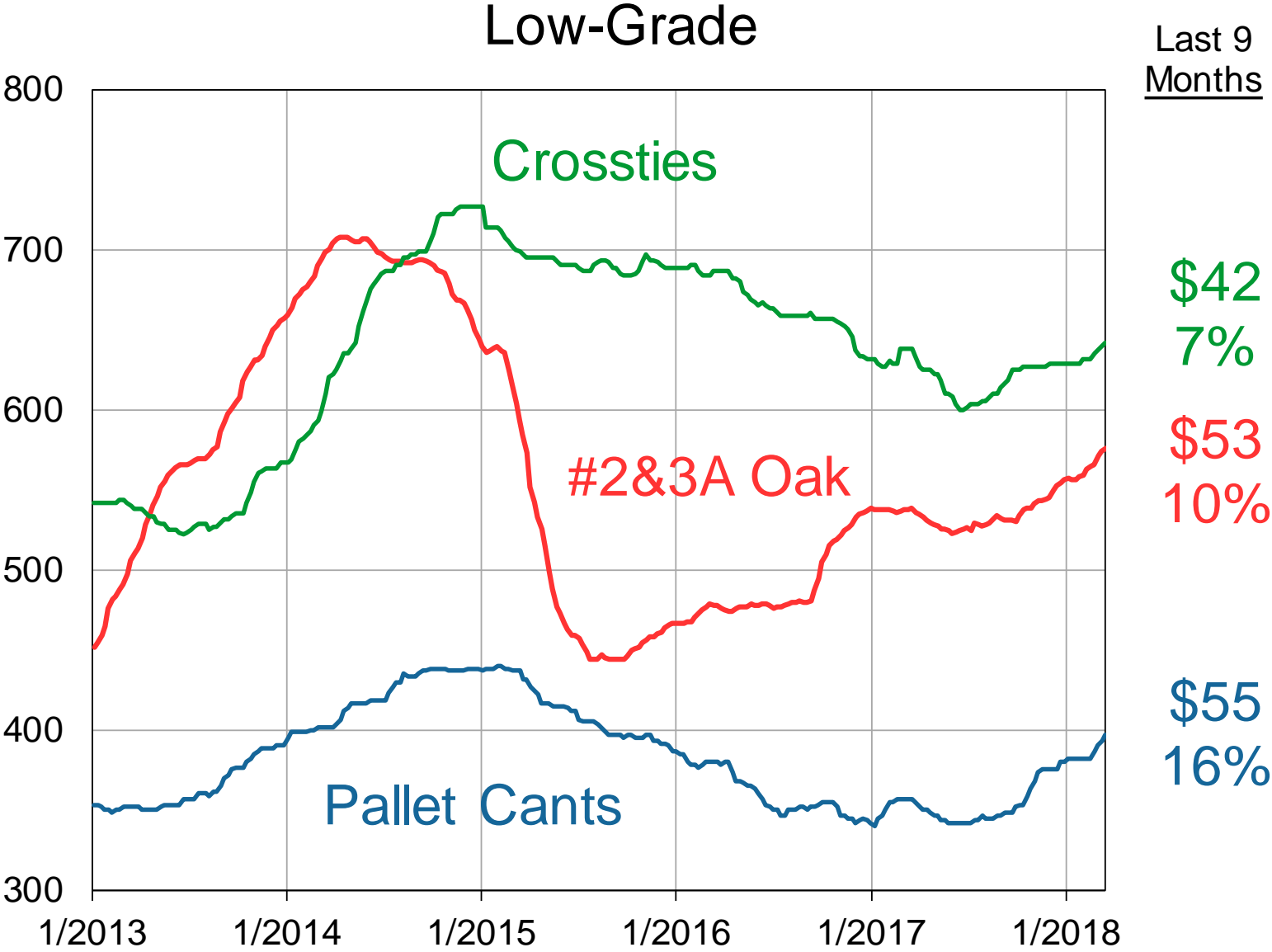


# Lumber Prices – POPLAR

## KD 4/4 POPLAR



# Low-Grade Prices



# Outlook Through Summer

- Lumber prices firm to higher
  - Secondary mfg. ramping up
  - Stronger low-grade markets: cants, ties
  - Very strong log and lumber exports
  - Insignificant sawmill production increases
    - Log availability improved but not great, expensive
    - Labor, trucking issues



# Why Are Lumber Prices Stronger?

- Stronger domestic demand
- No lumber overproduction in a year+
- Stronger low-grade markets
- Record lumber exports two years running
- Tight log supplies/higher prices
  - Wet 1st half 2017, fall 2017, spring 2018
  - Log exports

# Why Are Lumber Prices Stronger?

- Lumber and Log Exports

## WORLD

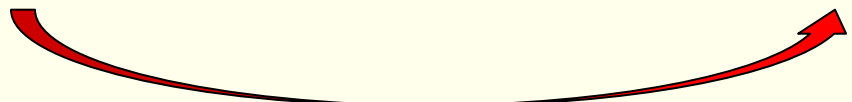
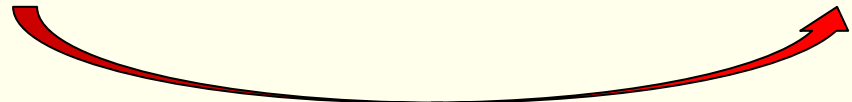
	Lumber		
	2015	2016	2017
Red Oak	+3%	+18%	+18%
White Oak	-7%	+4%	+20%
Ash	-7%	+15%	+4%
Walnut	-6%	+18%	+11%

	Logs		
	2015	2016	2017
	-24%	<b>+23%</b>	<b>+69%</b>
	-12%	-1%	<b>+28%</b>
	<b>+55%</b>	<b>+61%</b>	<b>+19%</b>
	<b>+23%</b>	-5%	<b>+38%</b>

## CHINA

	Lumber		
	2015	2016	2017
Red Oak	+7%	+26%	+24%
White Oak	-11%	+29%	+49%
Ash	-3%	+26%	+4%
Walnut	+6%	+63%	+20%

	Logs		
	2015	2016	2017
	-29%	<b>+46%</b>	<b>+99%</b>
	-28%	+9%	<b>+89%</b>
	<b>+87%</b>	<b>+83%</b>	<b>+22%</b>
	+6%	-4%	<b>+78%</b>





# **Log Exports – Industry Perception**

# The Concern

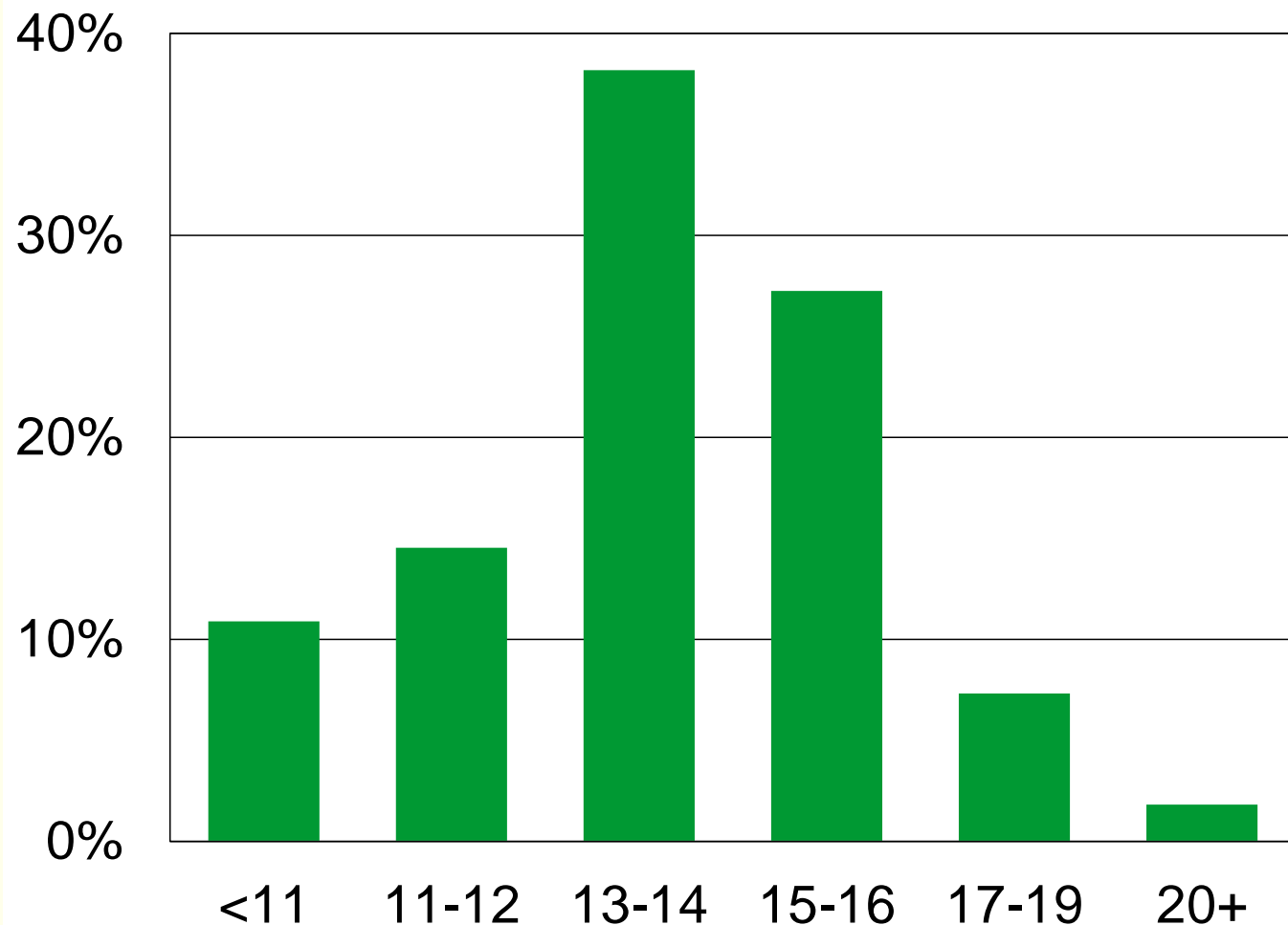
- U.S. sawmills struggling to afford logs
- Opting to export high-quality RO, WO, ASH, WAL, HIC, CH logs
  - “Get double the return than if I sawed them”
  - “Numbers say I should be exporting 90% of the logs I bring in.”
- Increasing reports of Chinese buyers going direct to log yards and even bidding on timber sales

# Sawmill Survey

- Two weeks ago, surveyed almost 800 U.S. hardwood sawmill contacts
- Usable returns from 52 different mills

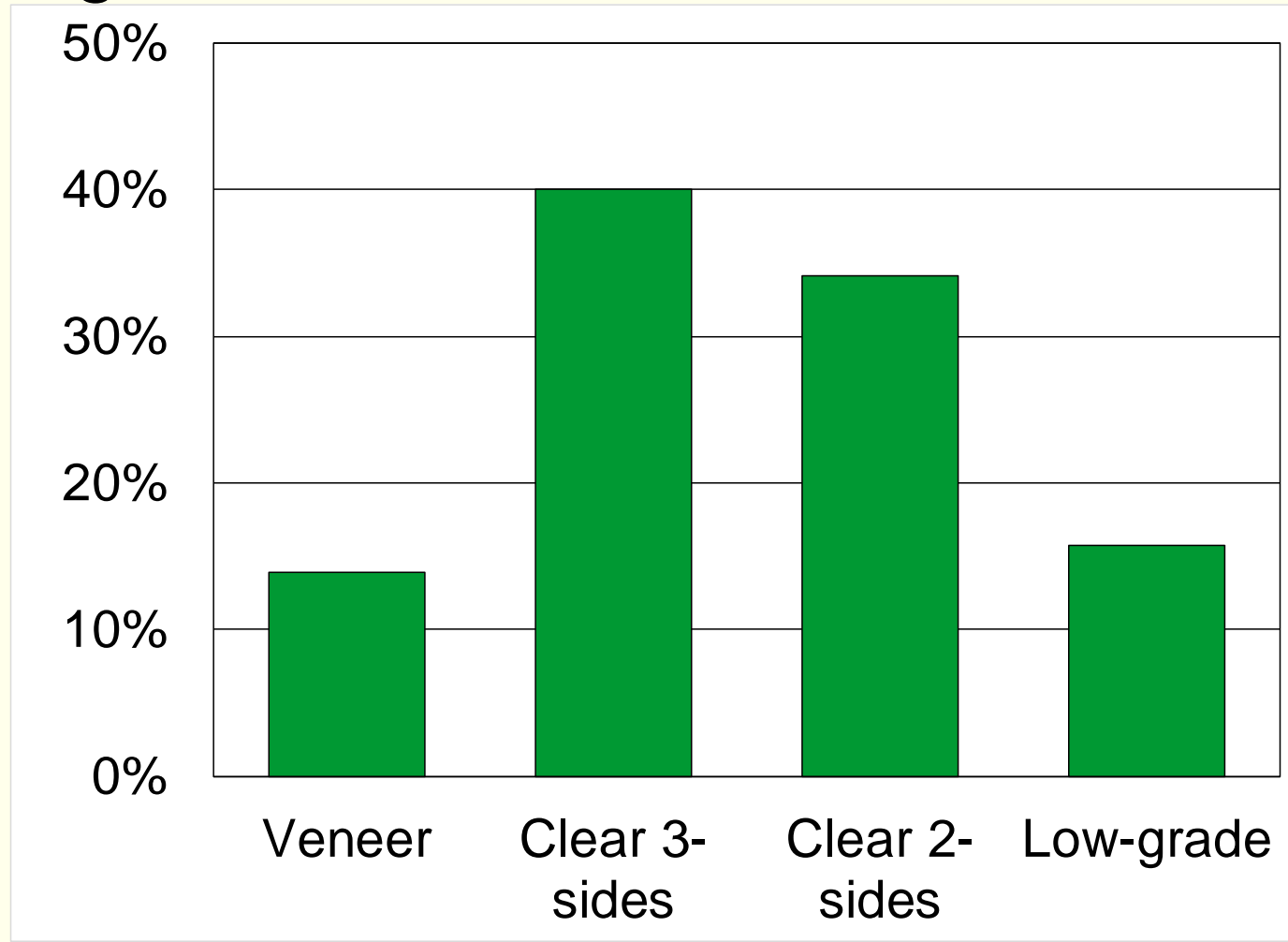
# Sawmill Survey

- What is the average small-end diameter of exported logs?



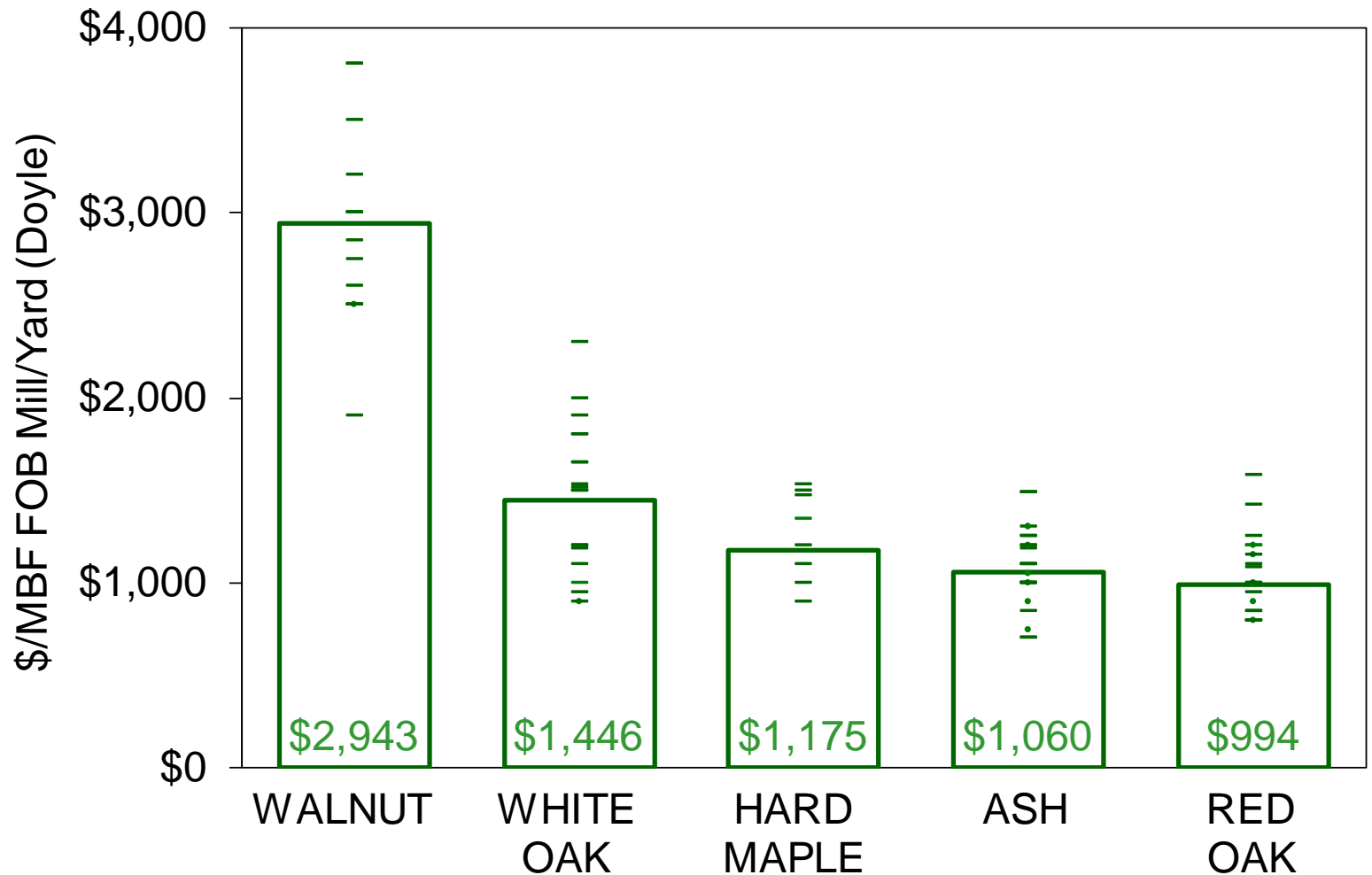
# Sawmill Survey

- On average, what is the grade mix of exported logs?



# Sawmill Survey

- What are foreign buyers paying for logs?





# Sawmill Survey

- What are foreign buyers paying for logs?

	<b>Our Survey</b>	<b>2017 USITC Trade Data*</b>
<b>Walnut</b>	\$2,943	\$3,170
<b>White Oak</b>	\$1,446	\$2,038
<b>Ash</b>	\$1,060	\$1,390
<b>Red Oak</b>	\$994	\$1,443

\*M3 converted to Doyle assuming 14” logs and 37% overrun. Trade stats include all logs, including veneer.

Our survey respondents said most logs were 13-16” and 2- to 3-sides clear.

# Sawmill Survey

- What are foreign buyers paying for logs?

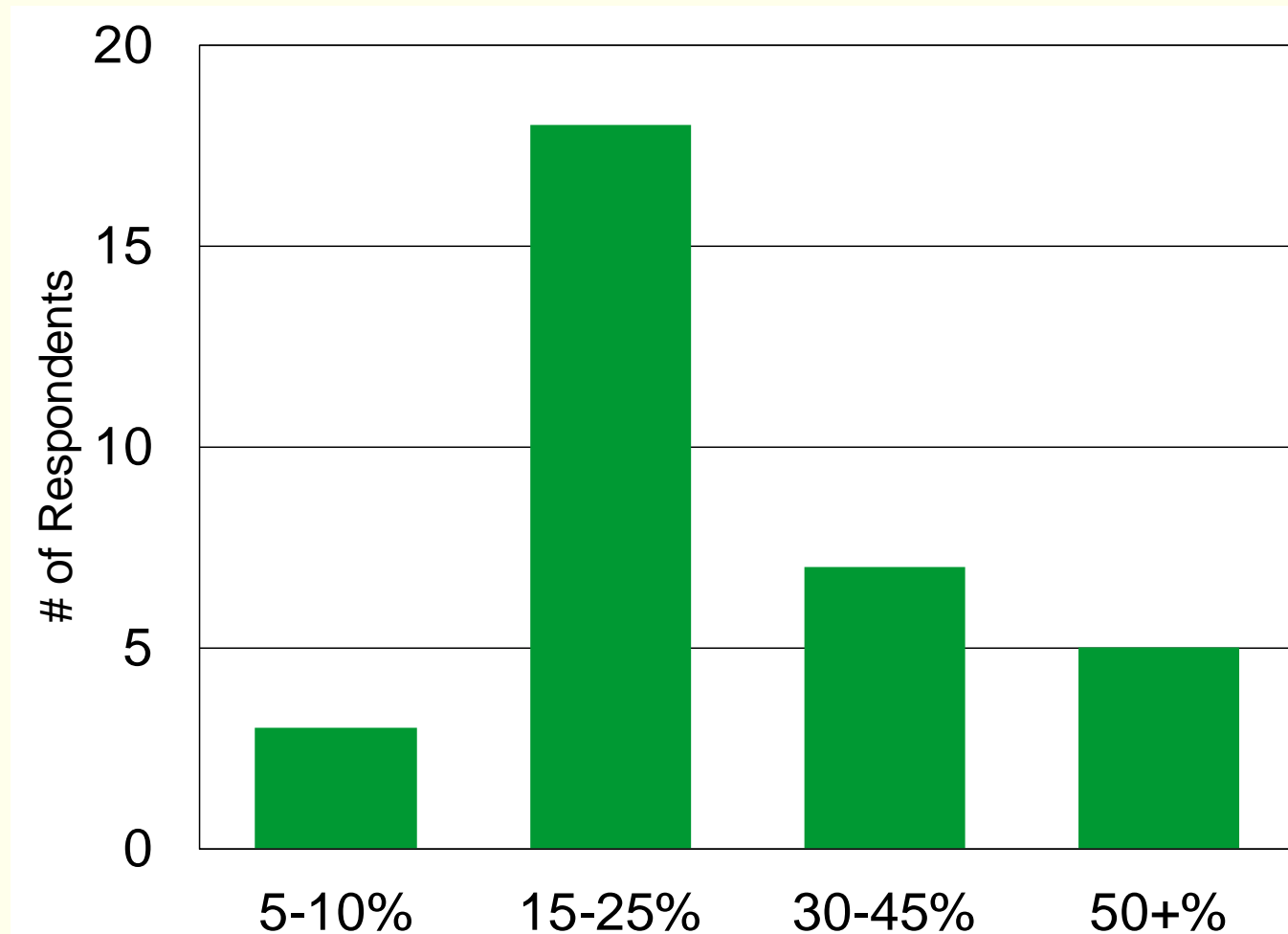
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Our survey respondents said most logs were 13-16” and 2- to 3-sides clear.

# Sawmill Survey

- How much more are foreign buyers paying than American mills can afford to pay?



# Sawmill Survey – Outcompeted

- To what extent, if any, are foreign buyers outcompeting American buyers for timber and logs?
  - “This happens regularly and with increasing frequency...with all species except Soft Maple...and with all log grades from 0-sides clear to veneer.”
  - “Foreign markets are taking at least 30% of the logs that once went through our mill.”
  - “Biggest problem is with Walnut and Ash, but it is increasing with Red and White Oak”

# Sawmill Survey – Outcompeted

- “We cannot win timber bids because our competitors are buying for export.”
- “The volume accelerated in 2017...and they pay 50% more for 10” pallet-grade logs than we can afford to pay.”
- “Local buyers with strong export markets frequently win the timber sales with good Oak, Ash, Cherry and Walnut.”
- “We’ve been outbid by 20-25% on every large timber sale of good quality Oak and Poplar in the last 2 years.”
- “Not at all” [foreign buyers not outcompeting]

# Sawmill Survey – The Impacts

## Log Exports Have...

- Decreased profitability for 70% of sawmills
  - 30% say log exports have increased profitability
- Limited log access to 83% of mills
  - 77% say it is getting worse
- Raised log prices for 98% of mills
  - 90% say it is getting worse
- Reduced sawing volume for 70% of mills
  - 50% say it is still declining
- Forced shifts in species sawn at 62% of mills
  - 50% say it is getting worse

# Sawmill Survey – How and Why?

- How (and why) are foreign buyers paying more for logs than they could pay for the equivalent volume of lumber?
  - “Buyers can’t get the thicknesses and widths they want from U.S. mills”
  - “They are trying to control raw material supply; then they will crash log prices”
  - “To control the market and to control the top price on lumber”
  - “Their processing costs are lower”

# Sawmill Survey – How and Why?

- “They are doing this to assure the supply and drive out competition, regardless of their sawmill needs or costs”
- “They are being subsidized by their governments to keep their people working”
- “The VAT tax the Chinese pay on imported lumber is 17%; the tax on logs is only 11%”
- “They want to put enough U.S. sawmills out of business that they can control the market”
- “Russia and other suppliers have slowed or stopped log shipments to China, so the Chinese focus has turned to the U.S.”

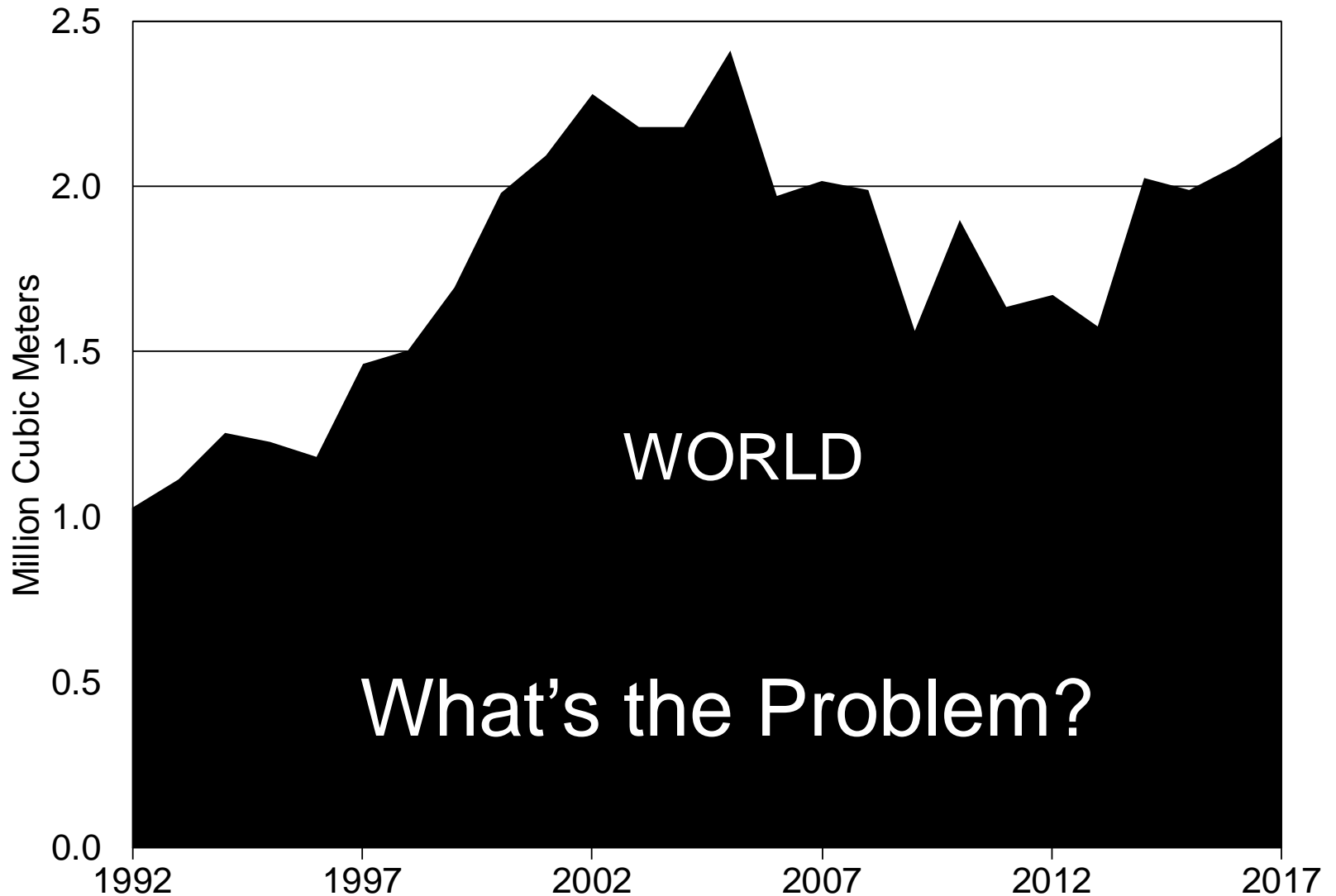


The background of the slide features a botanical illustration of a branch with several light-colored, textured, round fruits and large green leaves. The fruits are clustered along the branch, and the leaves are large and have a prominent vein structure. The overall image is semi-transparent, allowing the text to be clearly visible.

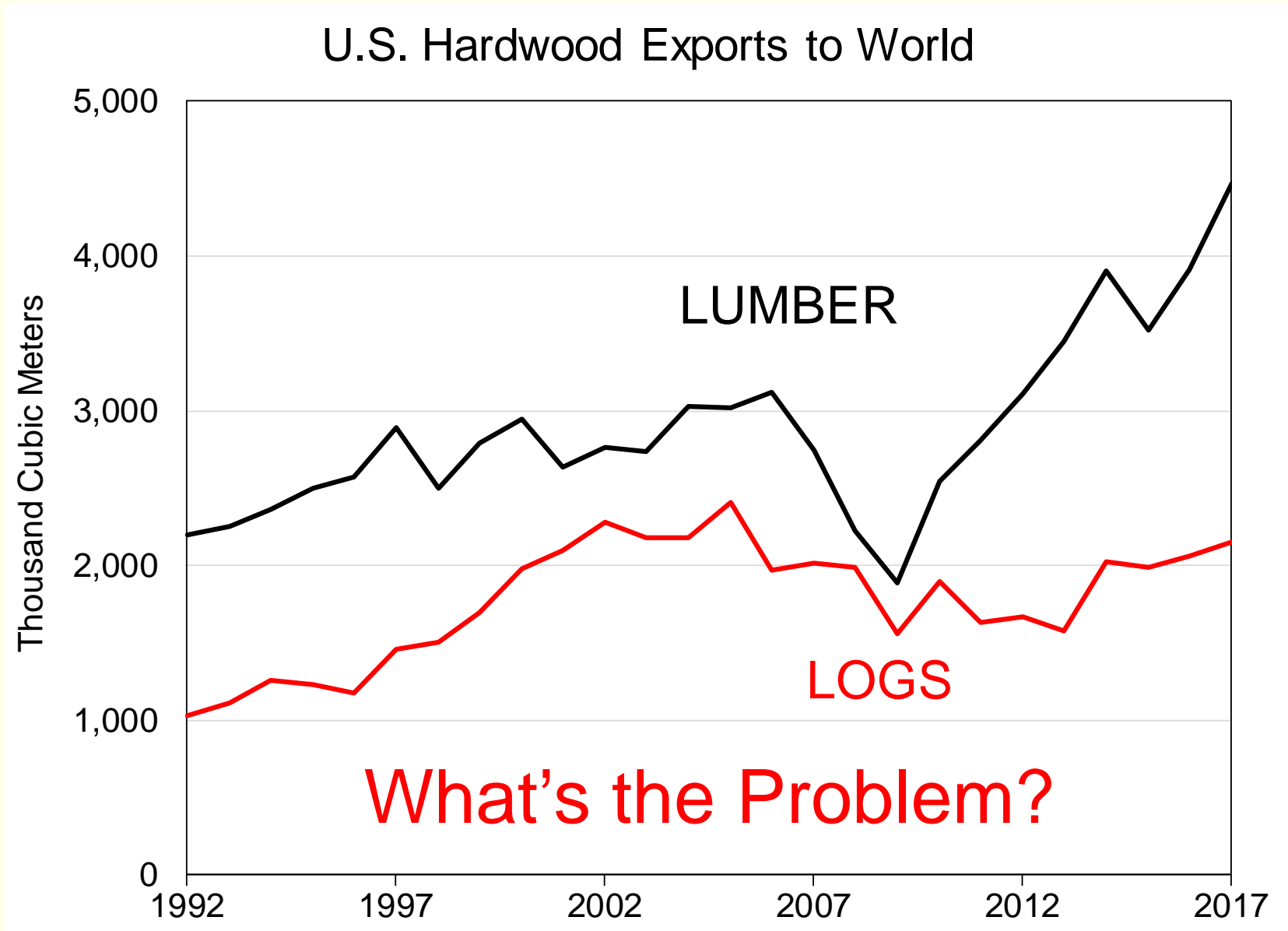
# Log Exports – The Data

# Log Exports – What Problem?

U.S. Hardwood Log Exports

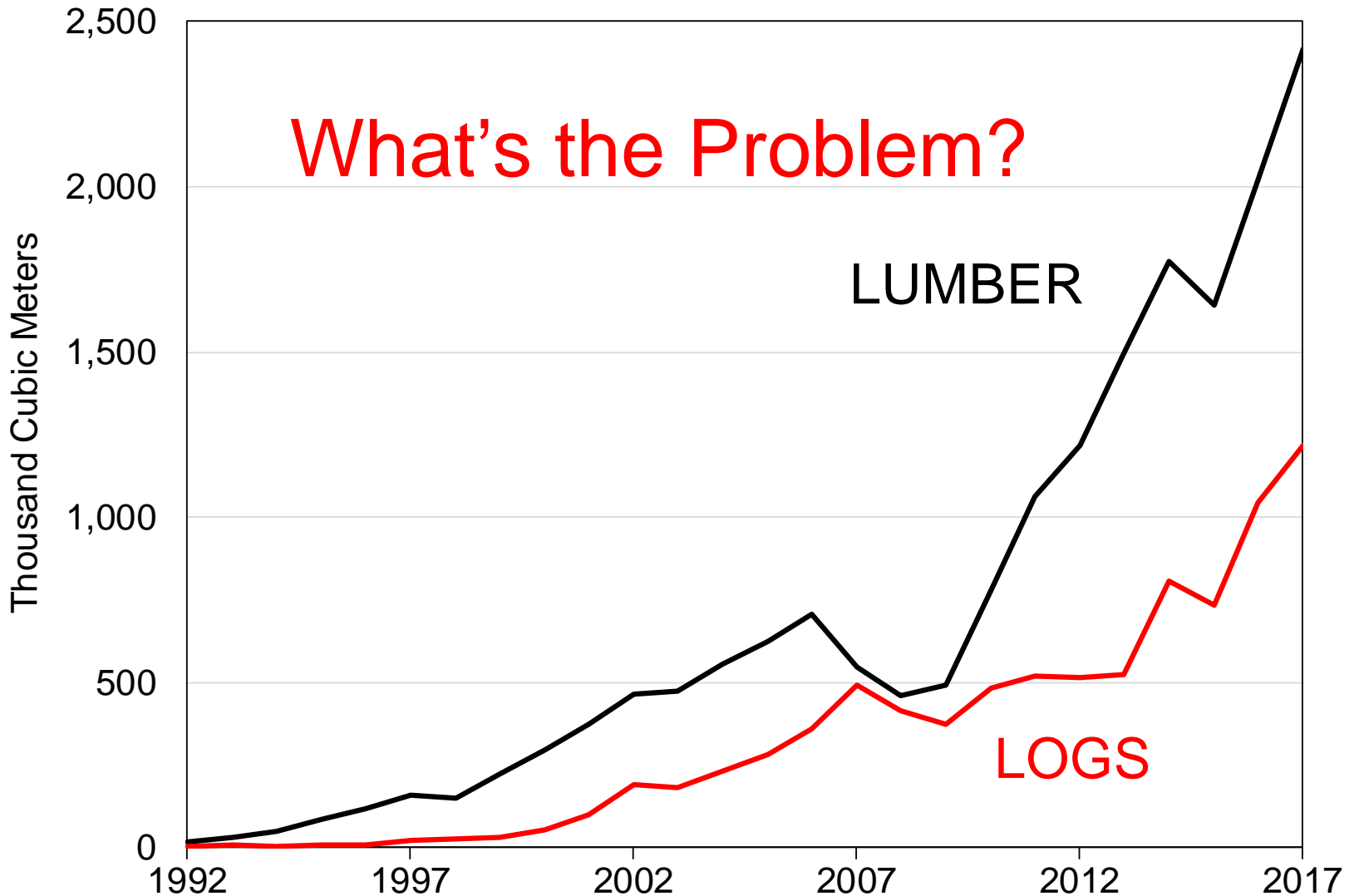


# Log Exports – What Problem?



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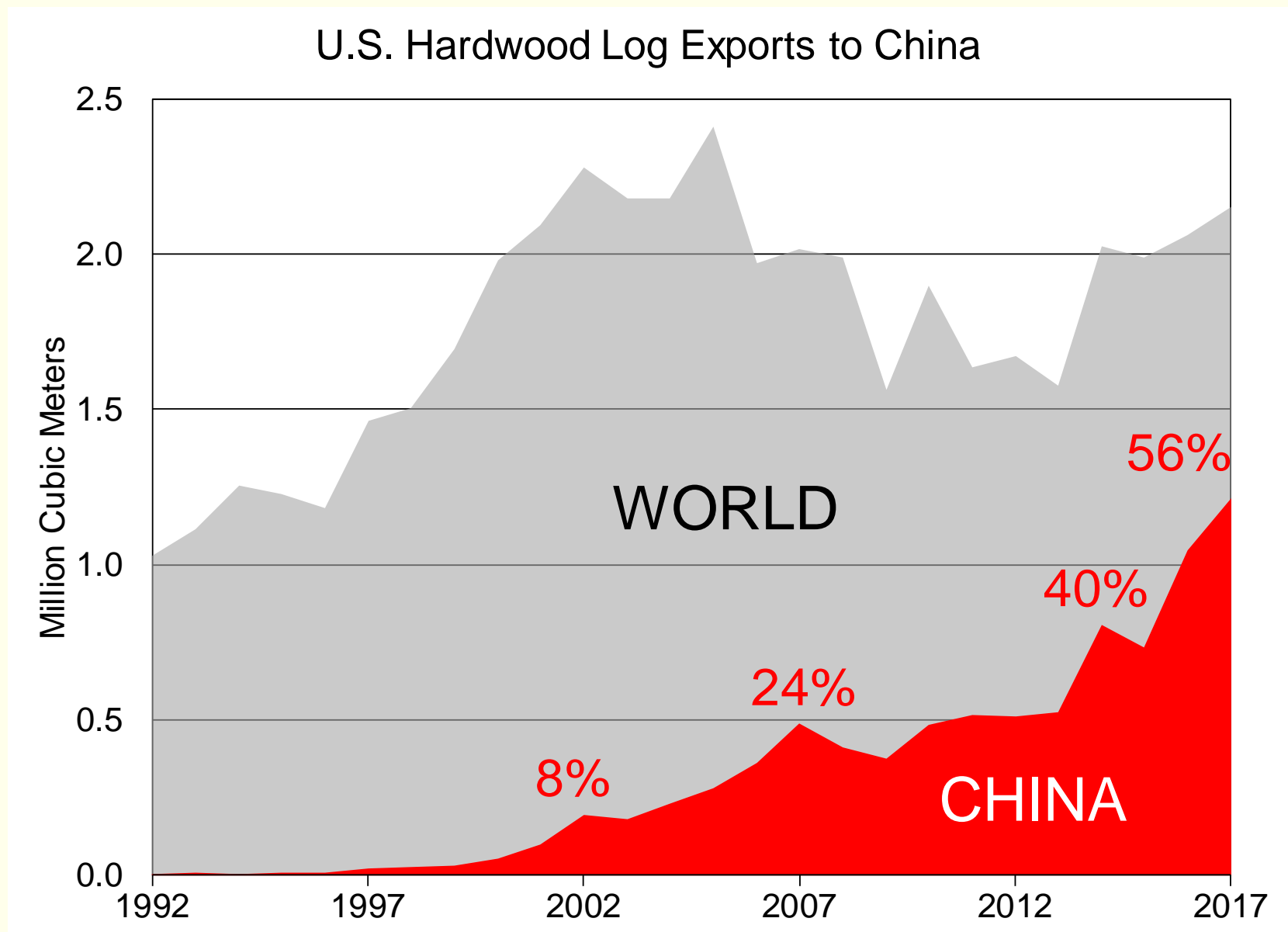
U.S. Hardwood Exports to China



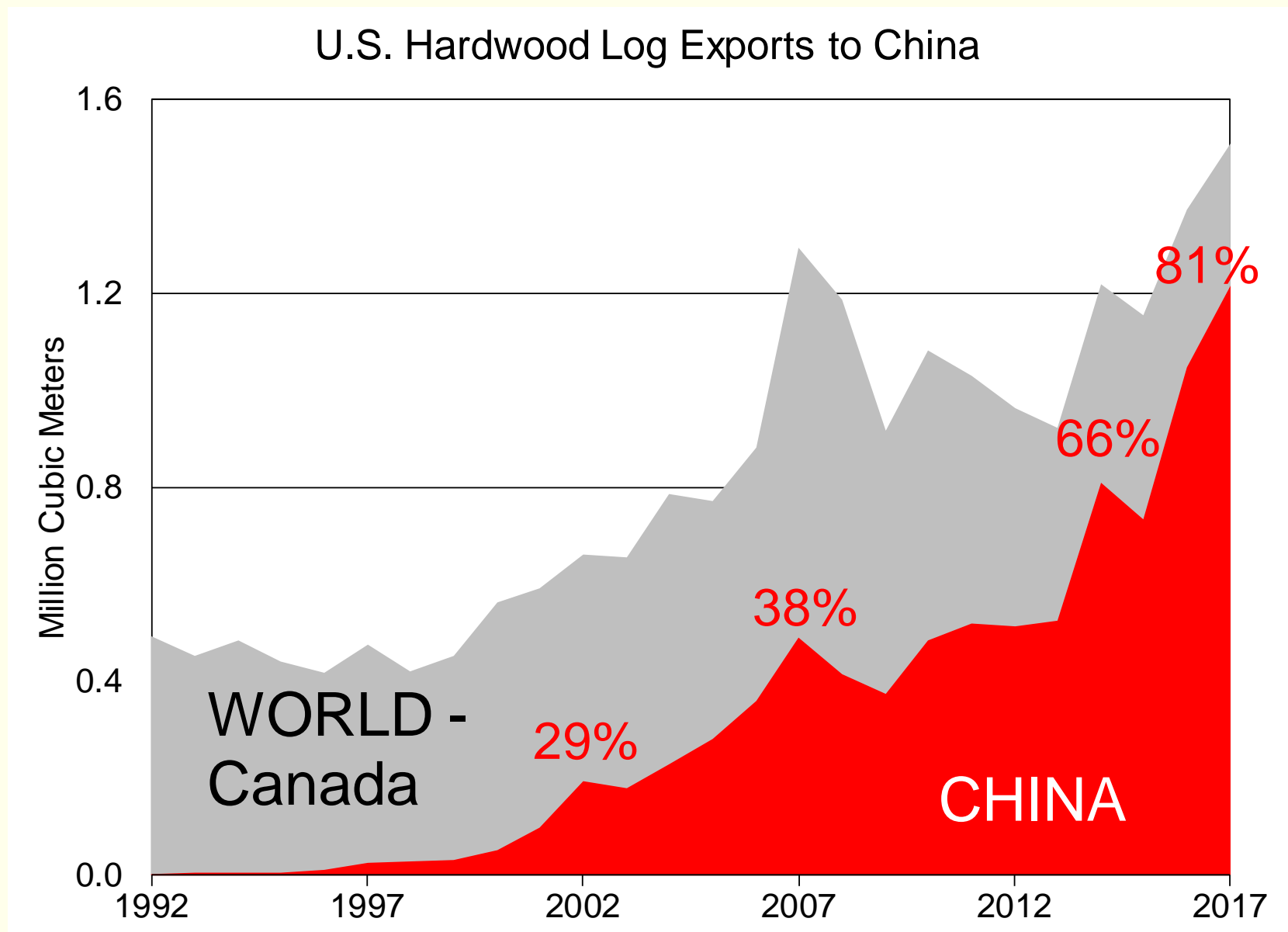
# The Problems Are...

- Log shipments increasingly concentrated in one market
- Log exports of key species have exploded in 2017
- Shift in the quality and value of logs being exported
- Larger percentage of resource mix being shipped as logs

# Log Exports – 1. Market Concentration

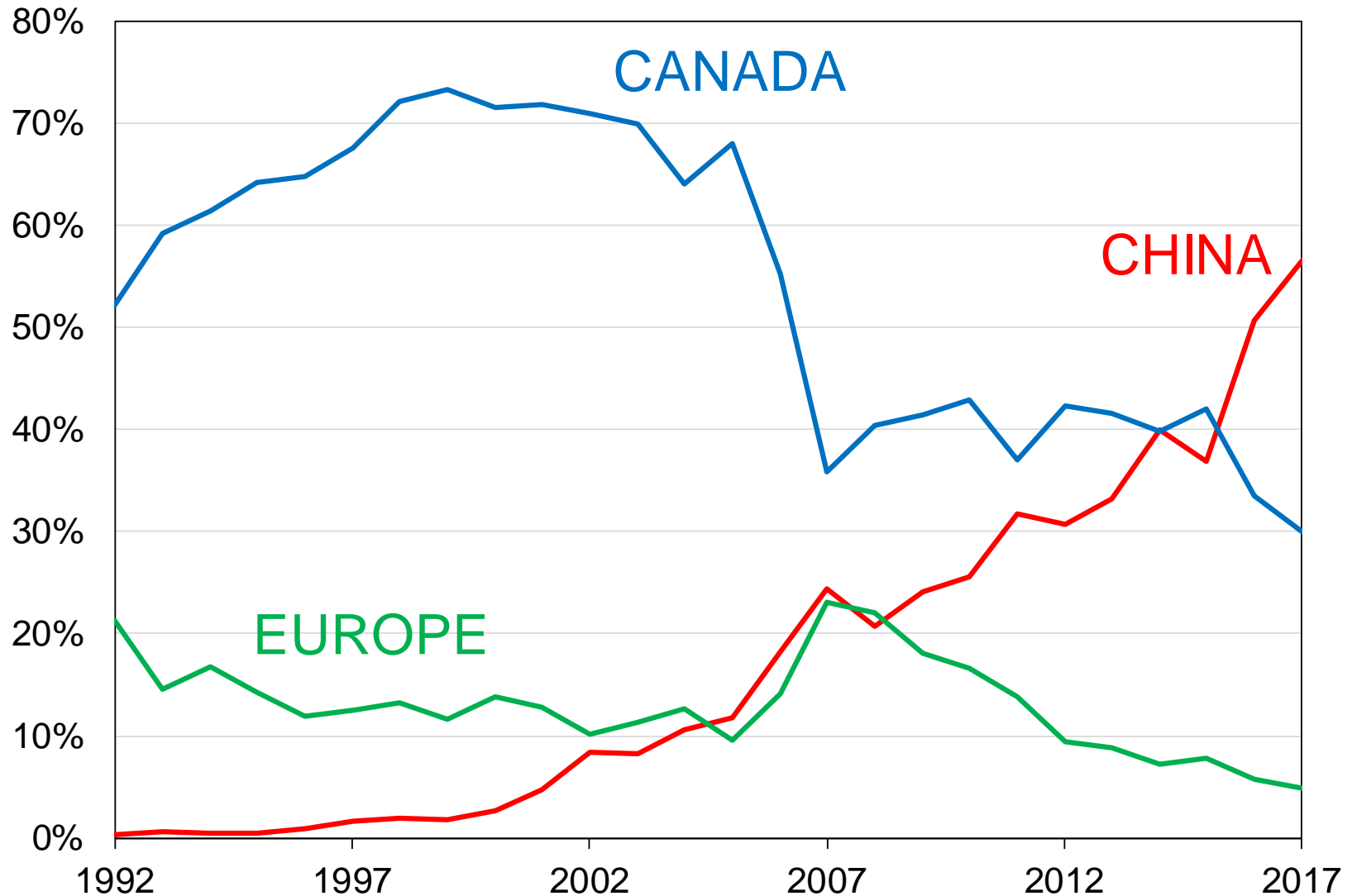


# Log Exports – 1. Market Concentration



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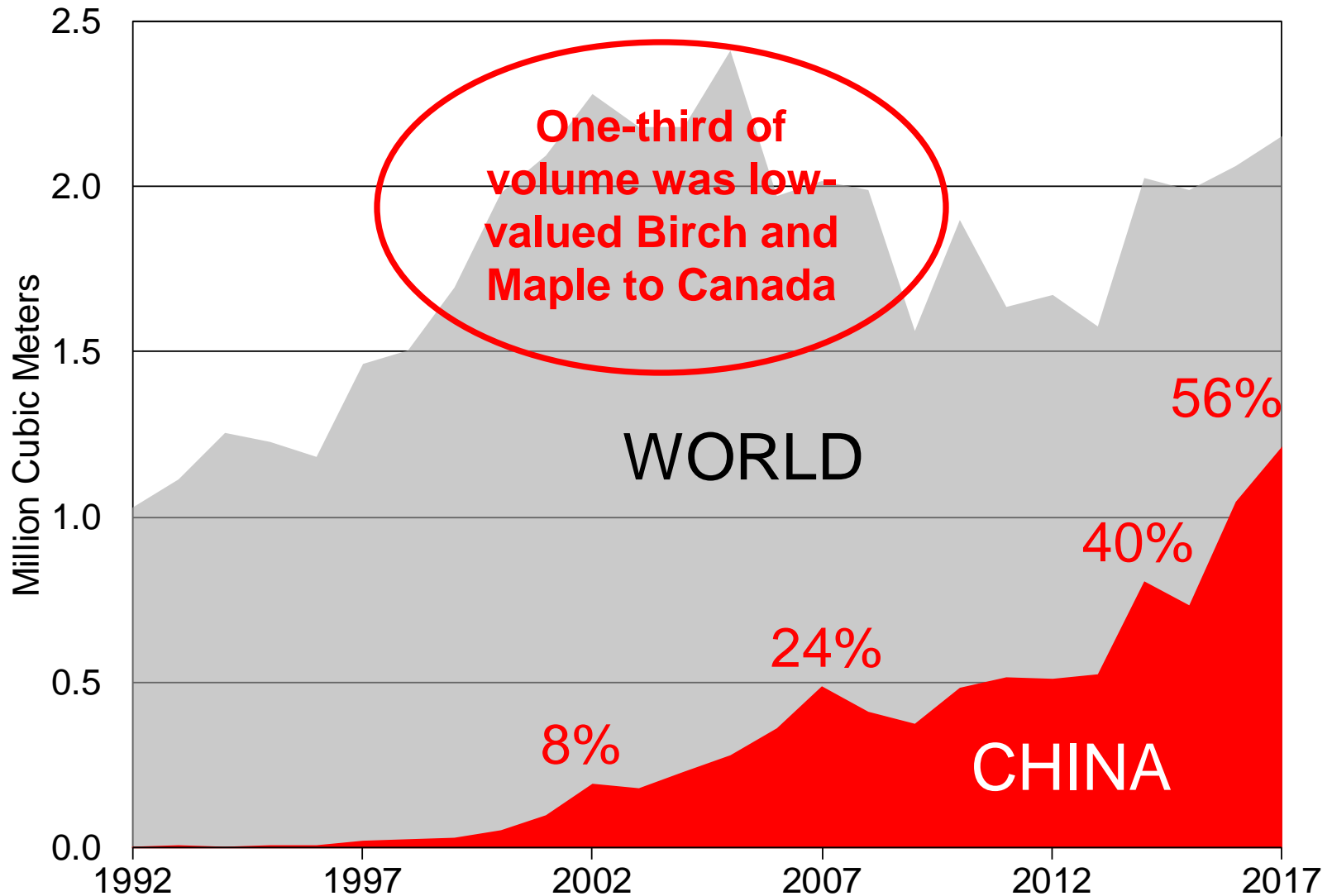
Destination of U.S. Hardwood Logs





# Log Exports – 2. Species Shift

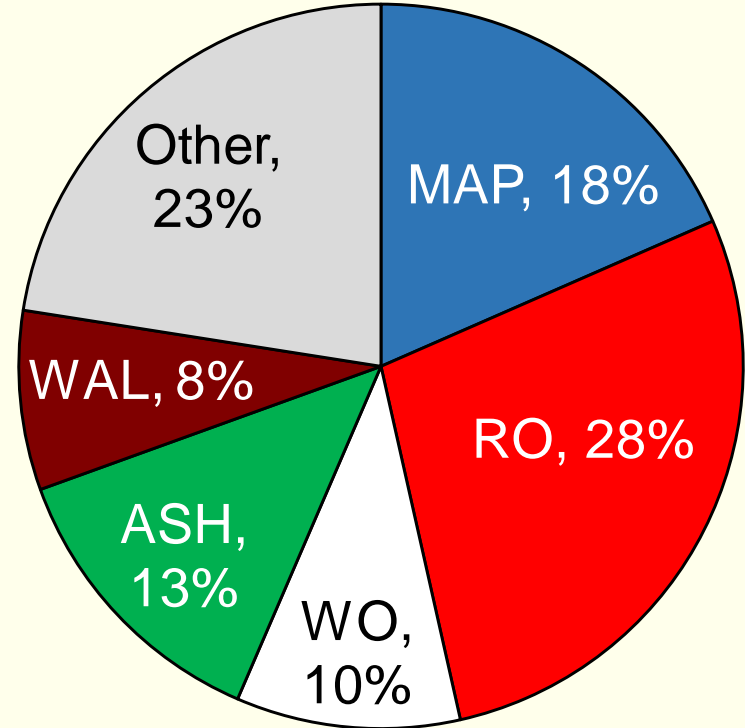
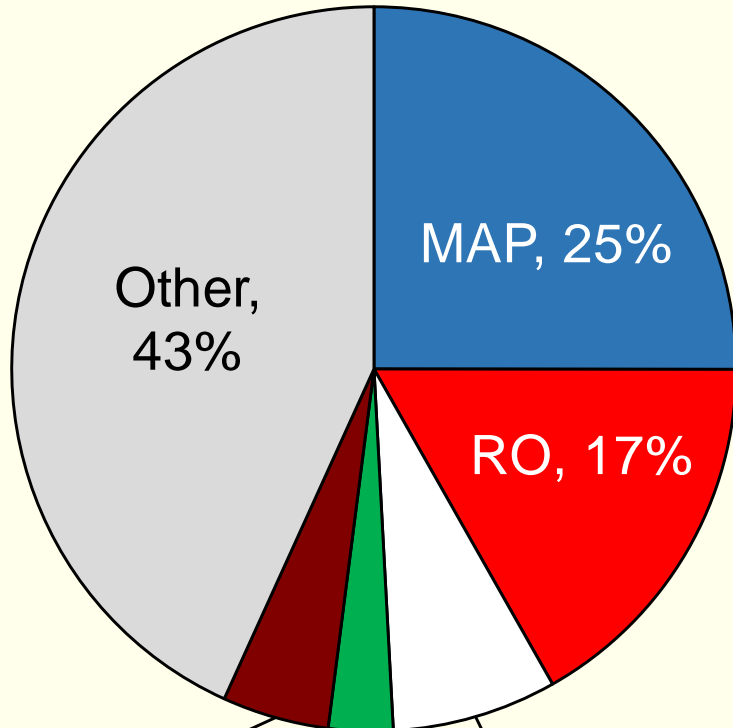
U.S. Hardwood Log Exports to China



# Log Exports – 2. Species Shift

2005

2017



WAL, 5%      ASH, 3%      WO, 7%

RO, WO, ASH, WAL

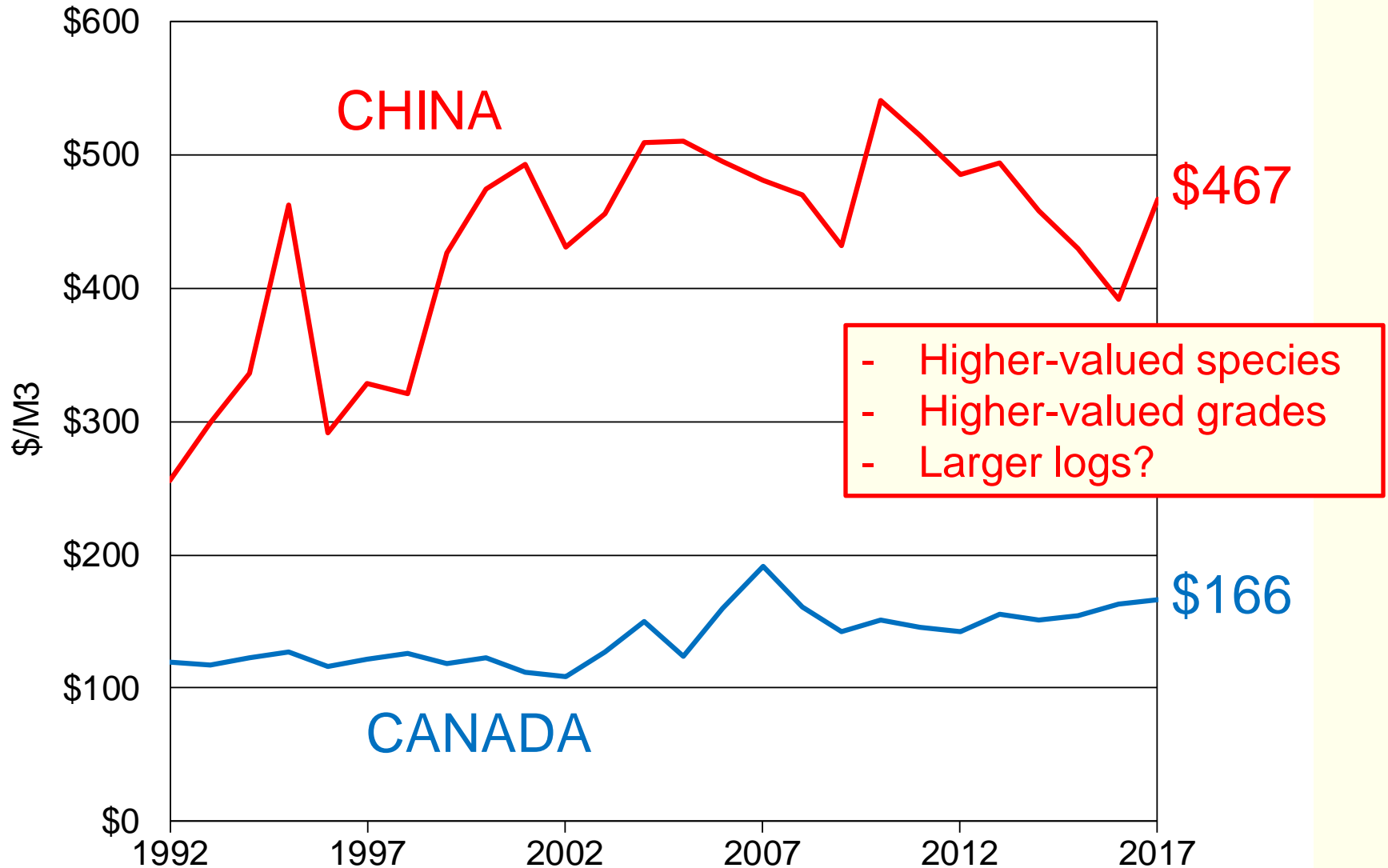
Vol (M3)  
Share

765,000  
32%

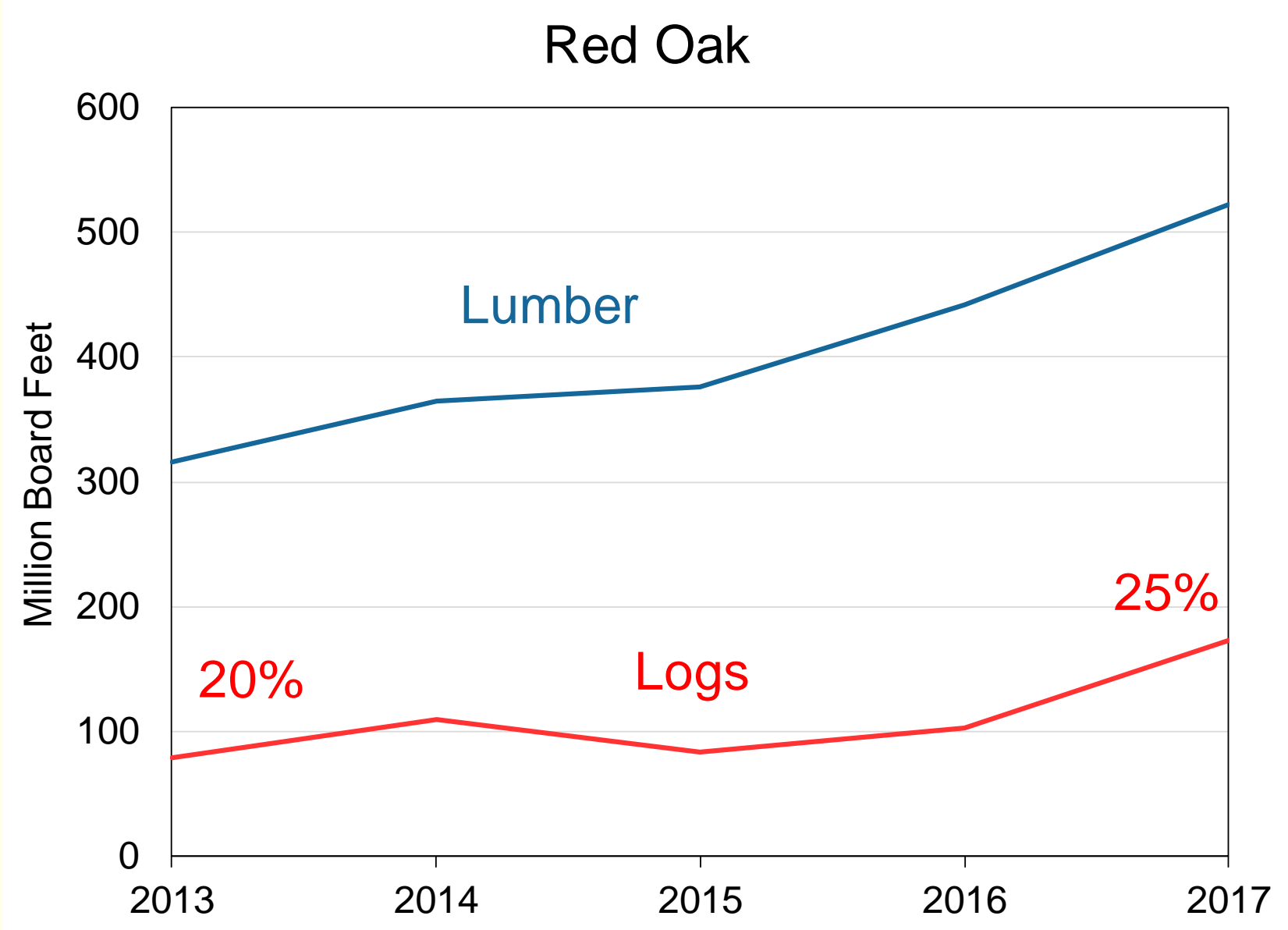
1,295,000  
60%

# Log Exports – 3. Quality and Value

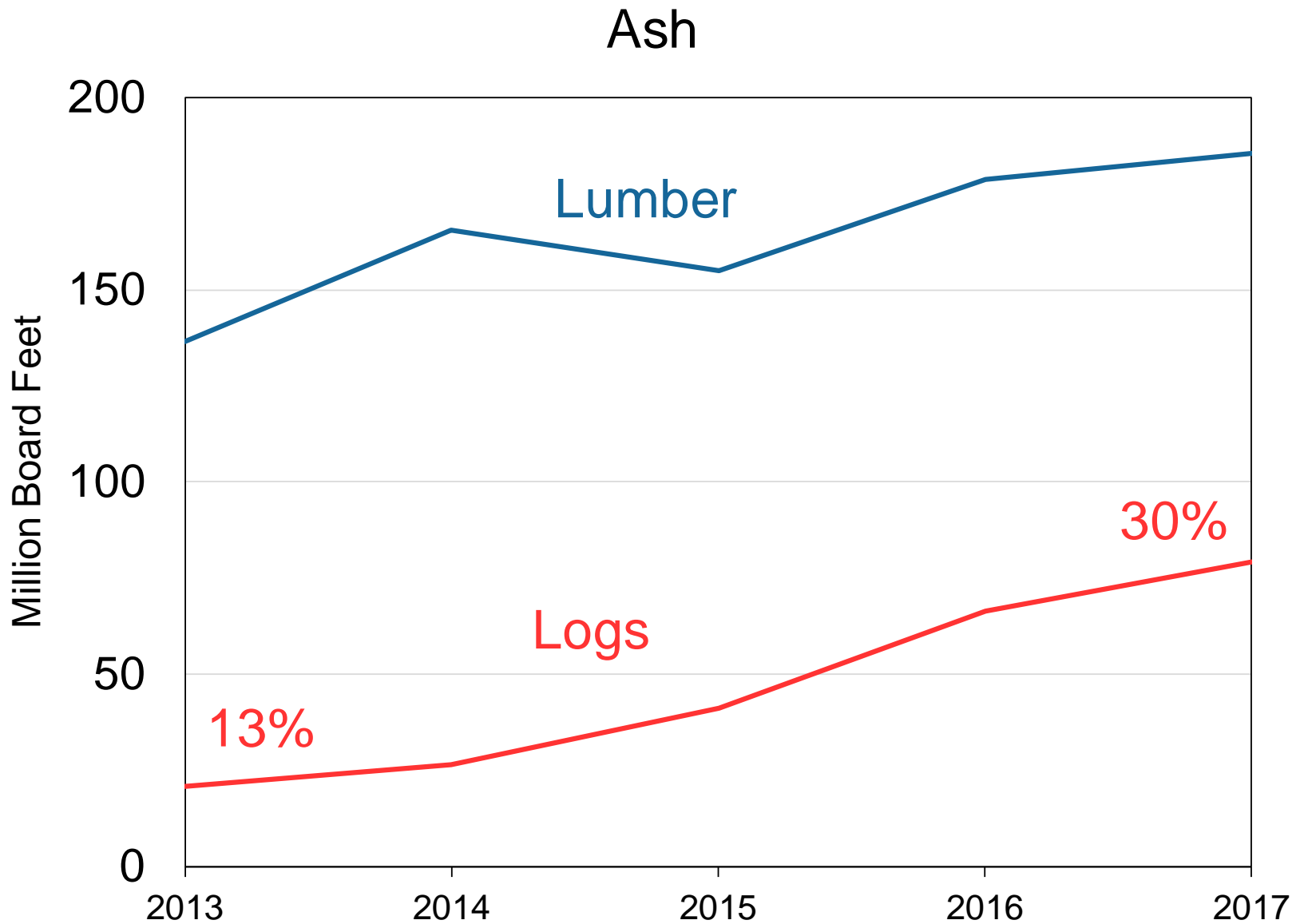
Average Log Export Values



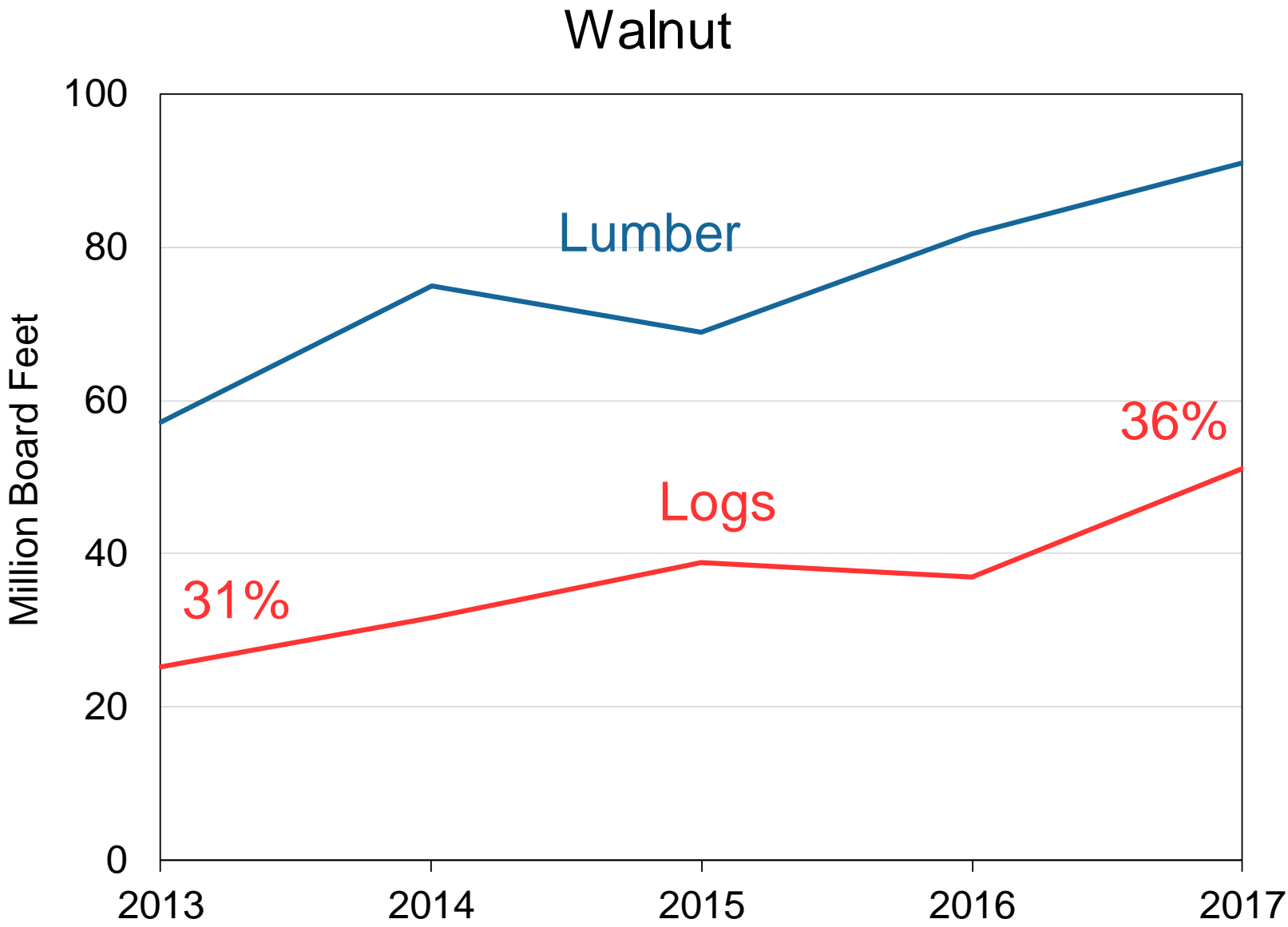
# Log Exports – 4. More Logs in Mix



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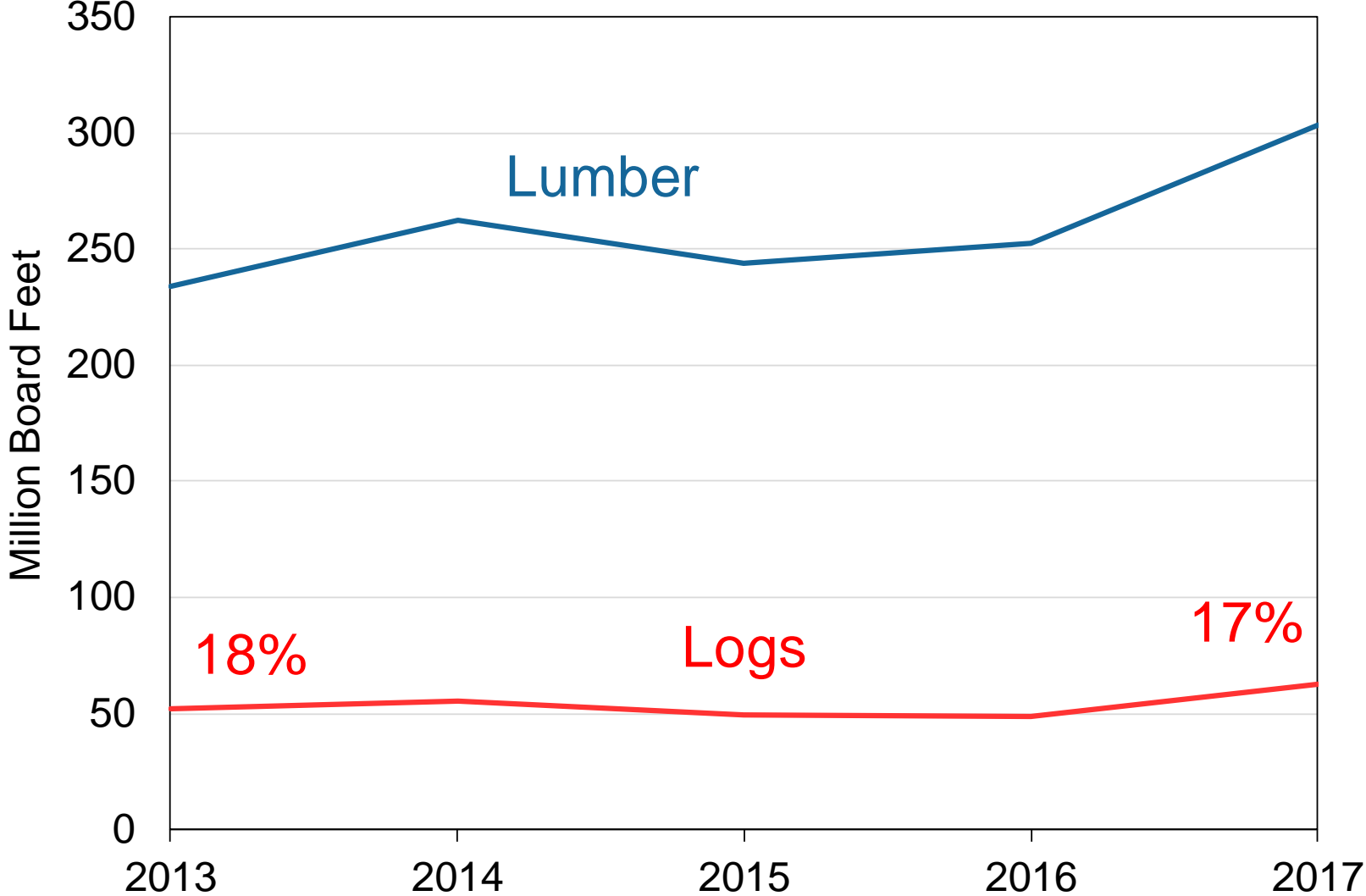


# Log Exports – 4. More Logs in Mix

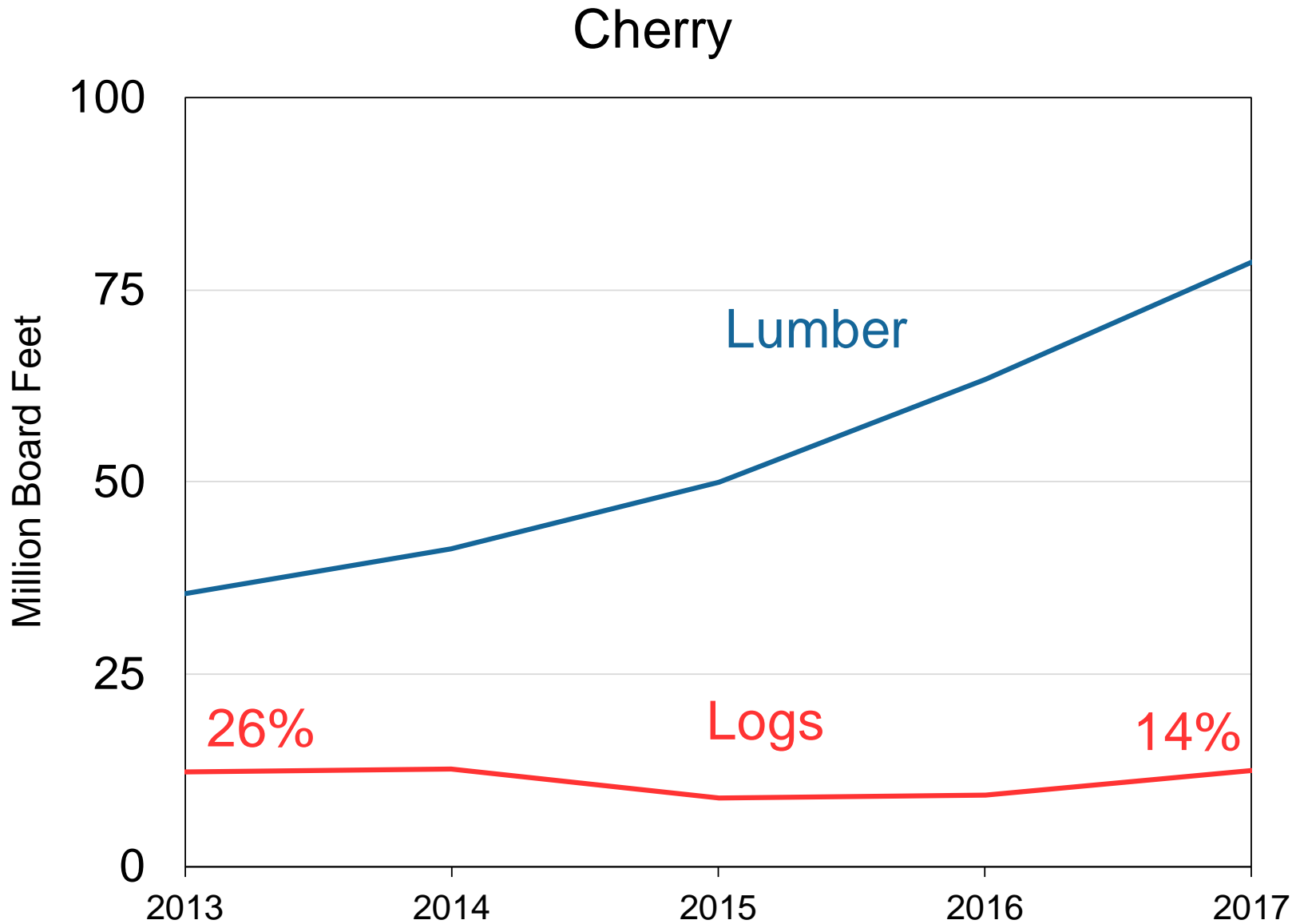


# Log Exports – 4. More Logs in Mix

## White Oak



# Log Exports – 4. More Logs in Mix





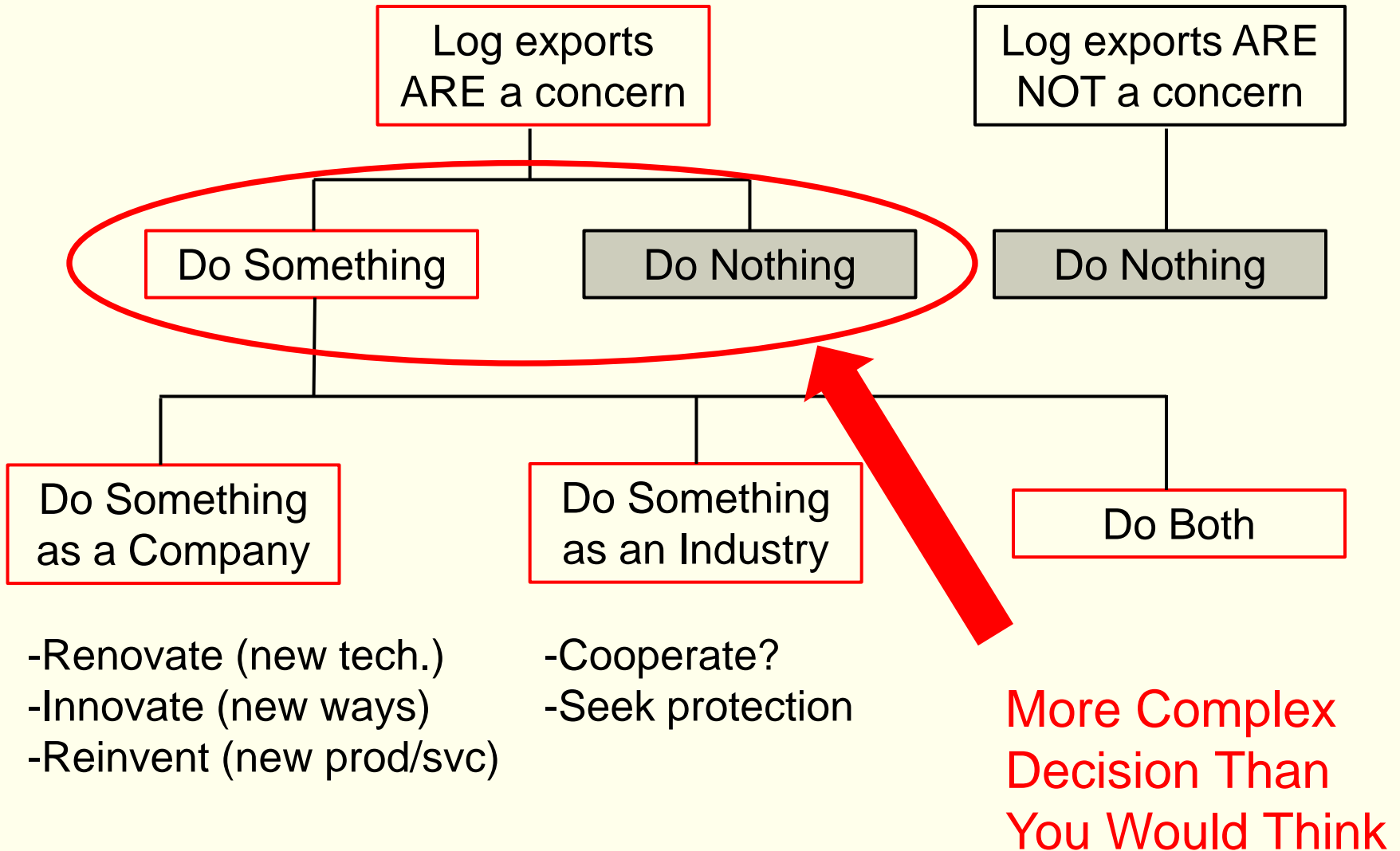
A photograph of a branch with several small, round, light-colored fruits and large green leaves. The fruits are clustered along the branch and have a slightly textured surface. The leaves are large and have a prominent vein structure. The background is a plain, light color.

**So What?**

# So What?

- Industry is concerned
- Government stats confirm rapid rise of log export volumes of key hardwood species
- Not far fetched to suggest that—on the current path—this industry will look radically different in 10 years
- What do we do?

# Decision Tree



# Why Might We Do Nothing?

- Don't see it as a major problem
- Don't see it as a major problem, yet
- Don't know what to do
- Don't think the trend can be stopped
- Don't think we can stop it
- Don't think we should stop it
- Too costly to do something
- Don't agree with “do something” options
- Divided industry can't/won't cooperate

# “Do Something” Options

- Outright Log Export Ban
  - Most instinctive response
  - Ban would be problematic on many fronts
- Temporary Ban
  - To give U.S. companies time to adapt
  - Would they?
- Selective Ban
  - From public lands
  - To specific countries

# “Do Something” Options

- Quotas (Limit allowable export volume)
  - Overall
  - By country
  - Conditional/flexible based on mkt conditions
- Tariffs on exported logs
  - We don't have to stop log exports, we just have to level the playing field so U.S. mills can compete

# Arguments FOR Export Restrictions

- From the sawmill perspective
  - Less competition for logs, lower costs
  - Higher lumber export volumes
  - Increased competitiveness in world markets
- From the secondary mfg. perspective
  - Increased lumber availability
  - Lower lumber prices
  - Increased competitiveness in foreign markets (if lower production costs)

# Arguments FOR Export Restrictions

- Govt. already restricts property rights
  - zoning, harvesting/enviro regs., ESA, eminent domain
- Necessary to achieve fair trade
  - If China has unfair or unethical advantages
    - Currency; environmental regs.; working conditions/safety; taxation; VAT taxes designed to favor raw material imports over finished goods
- U.S. restricts softwood log exports to protect Western producers
  - No fed. logs west of 100<sup>th</sup> merid. since 1974



# Arguments FOR Export Restrictions

- Long-term industry survival at stake
  - Is it more important to uphold our “values” or save our businesses?
- Besides, other countries—including developed countries—increasingly restricting log exports to support their industries

# Arguments AGAINST Exp. Restrictions

- Tramples private property rights
  - Limits revenue
  - Reduces property values
  - Favors manufacturers over landowners
- “Un-American,” “protectionist”
  - Impinges on free trade
- Disincentivizes investments in forest management; incentivizes development
- Foreign markets may retaliate and restrict lumber shipments


# Arguments AGAINST Exp. Restrictions

- Any benefits may be short-lived
  - Logs
    - Short-term: increased availability/price drops
    - Mid-term: landowners pull timber off market
    - Long-term: mills have to pay more to entice landowners to sell
  - Lumber
    - Short-term: increased exports and prices
    - Mid-term: foreign buyers seek substitutes
    - Long-term: lumber prices drop to entice buyers

# Would Restrictions Save the Industry?

- Export ban cannot undo global pull of manufacturing to least-cost regions/nations
- Doing so would require ongoing, external market controls
- But, those external tariffs/barriers keep consumer goods prices elevated and encourage substitution, which defeats the purpose of the barrier

**Or Just Delay Its Decline?**



**If We Can't or Won't Control Log Exports, What Is the Future for a U.S. Sawmill?**

# Long-Term Sawmill Outlook?

- IF sawmills can't buy logs at prices at which they can profitably produce lumber  
*and/or*
- IF exporting logs remains more profitable than sawing them...
  - Will we need as many domestic sawmills?
  - Will they look the same in 10 years?
  - What can today's mills do to continue to thrive? Three potential options...

# Long-Term Sawmill Outlook?

1. Renovate/Innovate to survive as one of remaining sawmills
2. Reinvent your company
3. Hang it up
  - Voluntarily, or
  - Because you failed to pick one of the first two

# Renovate

- Upgrade, modernize technology
- Make the same things in essentially the same ways, but more efficiently
- Can technology overcome advantages of producers in other countries?
  - Chinese sawmills are behind but will catch up
- Technology advances typically provide only incremental improvements
- Nothing radically new on the horizon



# Innovate

- Find new ways to make lumber; or
- Make innovative wood products to better meet global customer needs
  - S4S lumber
  - Components
  - 19 or 20mm thickness (3/4)
  - CLT
  - Thermally modified lumber
- However, these are still “commodities” subject to global competition

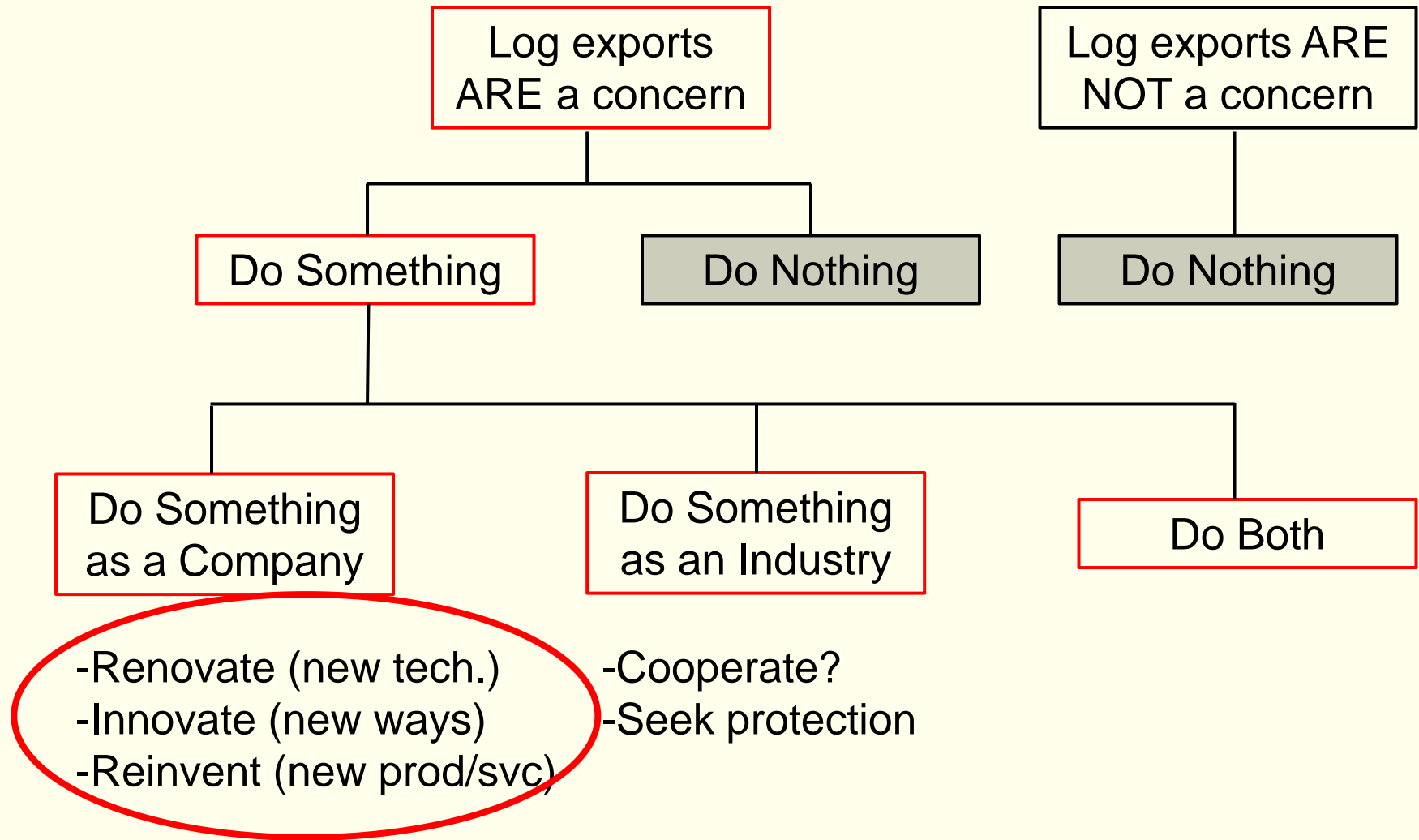
# Reinvent

- Make or sell something other than lumber and wood products
  - Change industries
  - Change position in industry
- Leverage existing strengths (people, technology, knowledge, capital) into products and services not as easily reproduced elsewhere

# Reinvent

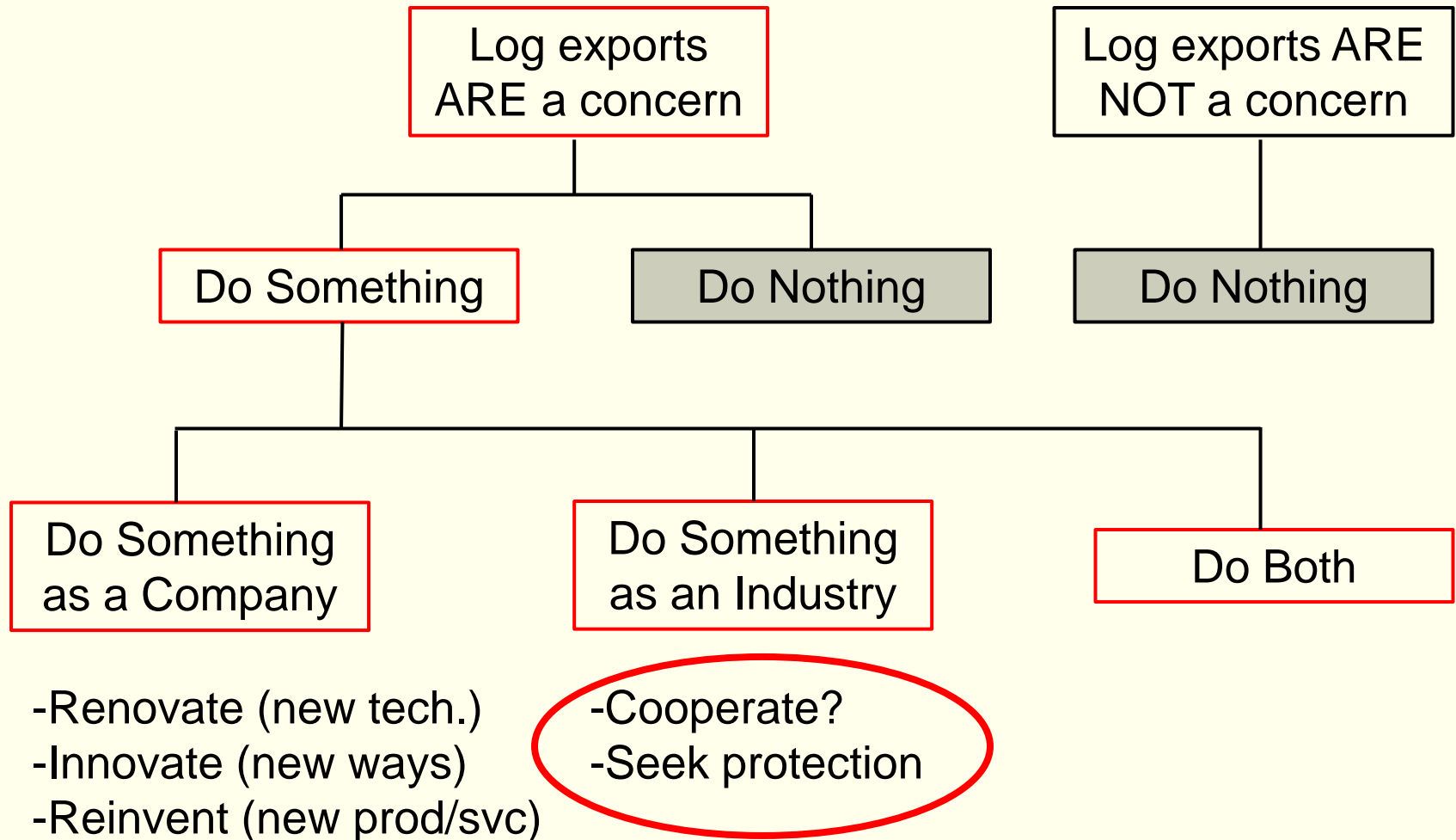
- What might those products/services be?
- The furniture industry path?
  - Invest in/contract with Chinese sawmills
  - Retain marketing & distribution functions
- Abandon sawing, transform into
  - Log procurement agency for foreign sawmills
    - Procure, fumigate, phyto, transport
  - Independent distributor of foreign lumber
- ??? Tomorrow's industry leaders are already working this out

# So What Will You Do?



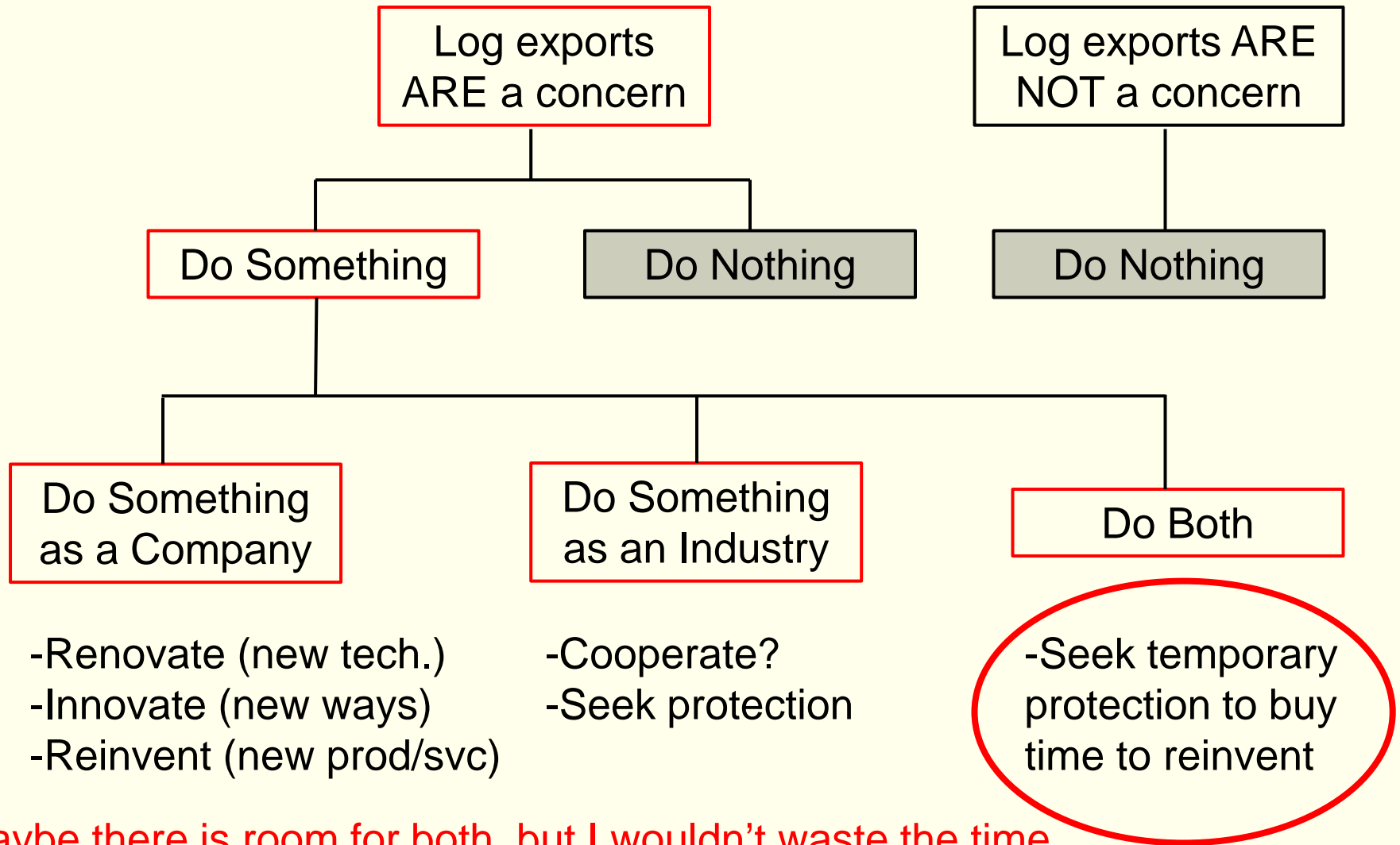
Everybody ought to be on this spectrum, somewhere, regardless of your thoughts on log exports. It's just good business and it may be your only defense against rising log exports.

# So What Will You Do?



Up for debate, certainly. But, it will be a long, tough fight. Either need to get on it soon, or drop it as an option.

# So What Will You Do?



Maybe there is room for both, but I wouldn't waste the time and energy seeking government protection if you don't intend to leverage whatever time it buys you to re-tool or reinvent.

# Thank You!



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