

# Turning Over a New Leaf: Japan's Market for Value-added Wood Products

By Hayden Stewart and Keith A. Blatner

The future is looking brighter for foreign makers of value-added wood products in the Japanese market.

Japan's construction industry has long needed foreign wood, to be sure.

Carpenters in this country build 1.5 million new homes each year which is slightly more than their counterparts in the United States.

Not only does Japan demand a lot of wood for construction purposes, but domestic loggers are harvesting fewer and fewer trees. The Center for International Trade in Forest Products, a policy analysis unit located at the University of Washington in Seattle, places Japan's self-sufficiency rate at

just 25 %.

The Center further predicts that log harvests in Japan "will continue at current or slightly lower levels well into the next century."

Foreign companies have long been eager to serve Japan's construction industry; rather the problem has been that foreign makers of lumber, plywood and other manufactured goods cannot participate in the market equally. They have charged that Japanese firms only want to import unprocessed logs.

The good news is that steady progress has been made since the 1980s. And the pace of this progress has recently accelerated.

Consider the case of Southeast Asian countries. They used to supply Japan with between 25 and 30 billion cubic meters of logs annually. But almost no value-added wood products.

Most log shipments from Southeast Asia to Japan consisted of Lauan logs, a tropical hardwood. This species is ideal for producing plywood which is aesthetic and has fine grain. Unlike carpenters in the West who make extensive use of panel products for structural purposes, Japanese carpenters primarily use plywood panels for concrete forming, making furniture and producing doors.

Exports of Lauan logs to Japan decreased sharply after Indonesia banned



Loading ships with lumber for export to Japan: Such vessels are bringing more value-added wood products and less logs than before

such shipments in 1986. Malaysia, Thailand and the Philippines soon followed with partial or total bans of their own.

Southeast Asia currently exports less than 10,000 cubic meters of logs to Japan. Saparjadi Koes, a plywood specialist with the Indonesian Embassy in Tokyo, explains that his country is promoting the domestic production of value-added wood products and job creation in Indonesia.

The plan seems to be working. The Japan External Trade Organization (JETRO) estimates that Southeast Asian makers of plywood have captured 40% of the Japanese plywood market. They are led by Indonesian firms who supply 84% of all imported tropical plywood. And by Malaysian producers who command another 14% of this same market.

Because some of the best quality Lauan trees grow in their countries, experts believe that Indonesian and Malaysian producers will be able to maintain their position in the Japanese market over the foreseeable future.

Indonesian producers are also protected by a unified importer, Nippindo K.K. Due to this company's control over the market, JETRO advises businessmen that "It is virtually impossible to establish a new direct import business from Indonesia."

One new opportunity is importing softwood plywood from temperate countries. This business is being pioneered by firms like Georgia Pacific of the United States. "We are trying hard to make the right products for the Japanese market," says Yoshinobu Yamamoto, a marketing manager in Tokyo. "But North American plywood is unlike Japanese or Asian products."

Not only does traditional North American construction-grade plywood have more knots and a rougher surface than competing Asian products, but the size of the wood is a problem. Japanese mostly manufacture plywood in 3 feet by 6 feet or 3 feet by 8 feet panels whereas North American firms primarily make 4 feet by 8 feet panels.

Imports of softwood plywood have remained small relative to imports of tropical plywood, as a result. "This is a



*Logs to processed wood: Can North American wood products penetrate the Japanese market?*



new business," explains Yamamoto who is nonetheless optimistic that it will grow.

## Softwood lumber from the West

North American countries are not only restricting log exports like Southeast Asian nations have done, but they are also bringing down trade barriers and helping foreign firms to meet the technical demands of Japanese consumers.

Canada essentially banned log exports decades ago. And the U.S. has enacted restrictions, too. Firms there can export logs from private property, but not government-owned lands. Exporting firms must also abide by strict substitution rules which preclude the replacement of exported logs from private property with logs from public lands for domestic manufacturing purposes.

Foreign trade associations and governments have also been taking aim at trade barriers. Prominent leaders in this effort include Canada's Council of Forest Industries (COFI), the American Plywood Association (APA) and the Western Wood Products Association (WWPA).

Tariffs have been one major target.

While Japan did not place a tariff on log imports, it taxed value-added wood products as much as 20%.

Foreign trade associations have also assailed fire codes as a trade barrier. Owners in urban areas cannot use wooden materials on the exterior of their buildings, laments Jack Merry, a spokesman with the APA. "We used to have this problem in the U.S.," explains Merry. "We then learned how to get the same level of fire resistance while working with wood." He lists the strategic use of sheet rock and fire blocks as examples of modern building techniques.

Grade stamps have been another trade barrier, according to the APA, WWPA, and COFI. In order to verify the quality of building materials, Japanese inspectors require structural wood products to be stamped with Japan Agricultural Standards (JAS) grade stamps. Building inspectors in many countries commonly demand such a grade stamp, but they also accept some foreign grade stamps in lieu of local ones—something Japanese inspectors have not done.

Several North American firms have successfully applied for the right to stamp their goods with a JAS grade stamp, reports Charles Barnes who

works with the APA in Tokyo. However, these facilities represent only a small fraction of all such facilities across the continent. The process is expensive and "painfully time-consuming," he explains.

Foreign trade associations have also advised members on how to deal with the peculiar technical demands of Japanese users.

Construction materials used in Japan differ in size from those used in North America, for one thing. This is because most Japanese carpenters still use their traditional "post and beam" method of construction. This system relies on large vertical posts in combination with small horizontal beams. By contrast, carpenters in Canada, the U.S. and many other western countries build homes around the 2x4 system.

North American producers had to invest in new equipment in order to supply builders of "post and beam" homes. Many choose not to do so, although "post and beam" homes still account for 95% of new housing starts in Japan.

Seattle Snohomish in Washington State is a case in point. President Bob Waltz reports that cutting plywood panels for Japan at his company's old mill was costly because the factory was not designed for such flexibility. In order to solve the problem, Seattle Snohomish had to invest in flexible machinery for its newest mill.

Aesthetics are the other major factor. Because homes in this country used to feature a great deal of exposed wood, Japanese construction firms are concerned about appearance. Traditional western lumber is excellent in terms of strength, according to Craig Larson, a Japan specialist with the WWPA. But Japanese-sawn wood products are both strong and attractive. "When sawmills here cut a log, they focus on volume recovery," Larson says. "Japanese also think about sawing an attractive piece of wood. They avoid using wood with a knot or other imperfection."

Because of all of the obstacles—regulations and differences in construction practices—exporting to Japan has required a lot of any company's

resources. Only the most dedicated have succeeded, to date.

MacMillan-Bloedel of British Columbia is one company that paid the price. Spokesman Scott Alexander reports that his company has maintained a sales office in Japan for more than three decades. Doing business in Japan can be tough, he concedes but Alexander argues that MacMillan-Bloedel has succeeded by focusing on the upper-end of the market. "We sell some of the best and most expensive wood in the world," he states. "We need to sell in a place like Japan where our product commands a premium."

MacMillan-Bloedel focuses on selling to makers of traditional Japanese structures such as sushi bars. According to Alexander, prices are often as high as one thousand Canadian dollars per board foot.

Another successful company has been Weyerhaeuser of Washington State. According to marketing manager Steve Ingram, the company is a major supplier of lumber and plywood to builders employing 2x4 as well as "post and beam" construction techniques.

Weyerhaeuser has about 30 years of experience in the Japanese market and owns JAS certified mills in the U.S. and Canada.

## A brighter future

Selling value-added products in Japan is finally becoming less difficult because of talks between U.S., Canadian and Japanese officials. Current developments are especially good news for companies who do not have the resources to invest in JAS certified mills or to open sales offices in Japan.

Tariff reductions have been one success. Not only do they now stand at 8.3% for softwood plywood and 8.0% for softwood lumber, but foreign trade associations are pushing for further relief. COFI, for one, has included these duties on its list of items "which should receive top priority."



Beating 2x4: Unwritten tariff of "post and beam" construction techniques

Building inspectors are becoming more flexible about fire codes, too. They often overlook the use of combustible exterior finishing and roofing in single-family homes today.

There has been some progress with respect to grade stamps, too. The Japanese government recently agreed to accept certain American and Canadian grade stamps for lumber which is included in homes built using 2x4 construction techniques.

At a time when regulations are being relaxed, Japanese customers and foreign companies also appear to be increasingly comfortable working together. This has been the experience of Gary Tragesser, vice-president of marketing for Bennett Lumber Products in Idaho. "Japan is becoming a world market," he states. "Companies there will buy from any supplier who has the right product." However, Tragesser is not taking customer relations lightly. He traveled to Japan last March to meet with a customer. "We are happy going through a trading company," he says. "But it is a good idea to visit every 18 months or so."

It may be some time before Japan's market for value-added wood products is open to foreign companies, but the future appears promising. ■

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