Plywood and Oriented Strand Board (OSB) in the Pacific Rim and Europe: 2011 – 2015

Market opportunities, strategies and prospects for trade and investment

The forthcoming upturn will present opportunities for a resurgence of investment, production, consumption, trade, prices and profitability for both OSB and plywood.

- Where will the opportunities be?
- What will happen to prices and costs?
- What new products are on the horizon?
- What are the prospects for resource supply, housing, and other end use sectors?

FORESTRY

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Market opportunities, strategies and prospects for trade and investment

Growth in the production and consumption of OSB in North America and Europe as a substitute for plywood has been rapid over the past decade, and yet plywood production is expanding. OSB and plywood have increasingly been produced in South America, Russia and Eastern Europe. OSB is used in construction applications for walls, roof panels, sub floors, single-layer floors, insulated panels, floor joists and rim board. In North America it has captured 75% of the structural panel market. In Europe 75% of OSB is used in the construction industry. Plywood is a structural panel but is also used for a wide range of other applications and is produced from both softwood and hardwood.

The production of plywood has increased dramatically in China, which is now a major exporter. It is ironic that the production of plywood has increased rapidly in a resource poor, low cost region, highly dependent on imported logs and veneer, and yet, the production of low cost OSB, which is produced from a lower quality resource, has not taken hold in China as a substitute for plywood, or as a potential export product.

The global downturn in 2009 resulted in overcapacity in the panels industry in North America, as well as plant closures. The upswing will present opportunities for bringing idle capacity back into production, and for developing markets in new regions.

However, there are some uncertainties. Will the pine beetle infestation in Canada constrain the production of plywood and OSB? Will the reduced availability of veneer quality logs from Indonesia, Malaysia and Russia result in rapidly expanding OSB production in China? Will there be a reduction in plywood production in China? Will plywood production expand in South America and Australasia? Will Russia become a major producer of OSB and plywood? How will this impact on the global market?

As the world economy moves into a sustained cyclical upturn, a resurging North American and European panels industry will face competition from China, Russia and South America. Producers need to understand these markets, and their own markets, to take advantage of opportunities for production, investment, trade, and competitiveness.

Opportunities for plywood and OSB

Plywood is the oldest and highest quality wood panel product. It has been produced for many years across the globe from softwood and hardwood peeled and sliced veneer. As the availability of logs from old growth forests has declined, and with the advent of new strand technologies, OSB has been developed and commercialized as a substitute.

OSB was first produced in North America in 1965 as a cost effective substitute for plywood sheathing. At the peak of the building cycle in 2005, OSB production capacity in North America exceeded 24 million cubic metres. Considerable additional capacity was added until 2008, despite the downturn in housing construction. However, the global financial and economic crisis, which began in late 2008, resulted in excess capacity, and plant closures.

Europe has been a major producer, consumer, and importer of softwood and hardwood plywood for many years. OSB production began in the early 1990's, and production capacity is now over 4.5 million cubic metres. It is now produced in ten countries in Western Europe, as well as in Turkey, Russia and East Europe, and is the fastest growing panel product in Europe. OSB in Europe is consumed mainly for applications such as wall sheathing, roof panels, subfloors, single-layer floors, structural insulated panels, floor joists and rim boards. It is also used for packaging, pallets and decorative and furniture applications and is exported.

Plywood, which is produced in Europe, and also imported, is used for many of these applications as well, although 40% is used in construction. Plywood and OSB producers in Europe will need to carefully consider short term cyclical and long term factors to maximize opportunities arising from the economic upturn.

OSB and plywood are both produced in South America, and there are plans for production of OSB in China, and in Japan. Over the next decade, as demand for plywood and OSB increases, in the face of diminishing tropical hardwood resources, these and other regions will begin to substitute OSB for plywood.

Australasia, with the capacity to increase hardwood eucalypt and softwood plantations will have the opportunity to expand consumption, production and exports of plywood and OSB.

Over the next five years, a key question will be to what extent consumption and production will expand to new regions, and to recover in established regions. Will there be a shift in plywood production from China, currently the world's largest producer to resource rich regions such as South America and Russia?

Will production of OSB expand in resource poor, but high demand regions such as China, Japan and South Korea? Will producers in established regions consolidate, will they expand production, or will they be caught short by a rapid upswing?

Will the rapid rate of substitution of OSB for plywood continue? Are there prospects for new uses for plywood and OSB? How much will production of plywood and OSB expand, where will it occur, and how will this impact on industry structure, prices, consumption and trade?

Report objectives:

The aim of this study is to analyse trends and provide projections for consumption, production, trade and prices for softwood and hardwood plywood and OSB in each of the key regions.

The study will:

- Identify the key driving factors affecting production, consumption, trade and prices
- Forecast prices, production, consumption and trade, and analyse the competitive dynamics between the key regions
- Analyse prospects for the resource and key end use sectors, within each consuming region
- Identify potential new applications for structural plywood and OSB
- Identify the optimum timing for investment in new production capacity in each region based on capacity utilization and projected new projects.

Contents of the Study:

An executive summary highlighting the main conclusions, providing a global overview and aggregating analysis and projections for all regions.

An introduction explaining the methodology and approach.

Separate chapters providing a detailed profile and forecasts for the major producing and consuming regions including:

- An economic overview
- An overview of the forest industry and resource base
- An overview of the plywood and OSB industries by region/country
- Details of existing and planned plywood and OSB production facilities and capacities for individual plants, countries, regions and globally
- Five year histories and forecasts of prices, production, consumption, imports, and trade by region/country/globally
- Industry variable cost structures
- Five year histories and forecasts of end use markets
- Identification of current end uses and potential new applications for plywood and OSB
- Quality assessment of plywood and OSB by region
- Overview of distribution channels by region/country
- Approaches to product promotion by region/country

REGIONAL FOCUS

The focus will be on **major producing and consuming countries** in each of the key regions, as follows:

- **Australasia**
  – Australia
  – New Zealand
- **Europe**
  – European Union
  – Other Europe (including Turkey & Russia)
- **North America**
  – Canada
  – United States
- **North Asia**
  – China
  – Japan
  – South Korea
- **South America**
  – Argentina
  – Brazil
  – Chile
  – Uruguay
- **South Asia**
  – Indonesia
  – Malaysia
  – Thailand
  – India

METHODOLGY

The general methodology used is the product of more than 40 years of methods research and development by BIS Shrapnel.

The reports will utilize three basic sources of information:

- Field research based on interviews and strategic discussions in key producing and consuming regions with producers, end-users, equipment suppliers, distributors, industry associations and BIS Forestry associate companies.
- Internationally published data on plywood and OSB, and the economies and markets of the key regions, as well as information from government and industry statistics organisations.
- BIS Shrapnel's own studies will be used as references.

  Among the most relevant are:

  – Oriented strand board and lumber in the Pacific Rim and Europe

  – Structural engineered wood products in the Pacific Rim and Europe

  – The global market for tropical hardwood plywood

  – Medium density fibreboard in the Pacific Rim and Europe

  – Particleboard in the Pacific Rim and Europe

  – Wood based forest products in China

  – Sawn timber in Australia

COST AND TIMING

BIS Shrapnel Forestry plans to commence the study in August, 2010, with the final report to be delivered in December, 2010.

Cost of subscription:

Early Bird Price (before July 30th, 2010)	**A $16,500**
Regular List Price (after July 30th, 2010)	**A $19,800**

Subscription includes two printed and bound copies of each report. A $ = Australian dollars; GST included if purchased in Australia; PDF versions are available at an additional cost of A $1,100, and extra printed and bound copies are available at an additional cost of A $440.

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BIS Shrapnel offers an unmatched combination of strengths: economic analysis and forecasting, coupled with market intelligence gathering and analysis. No other research firm in Australia enjoys our pre-eminent reputation in forecasting.

Formed in 1964, BIS Shrapnel has built extensive expertise across a broad spectrum of industry sectors and geographic regions, and has developed a large portfolio of research methodologies, all of which we continue to expand.

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- household appliances and power tools
- infrastructure and mining
- paper and packaging
- residential property
- transport

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