

Has Oceania's Softwood Market Been Overlooked?

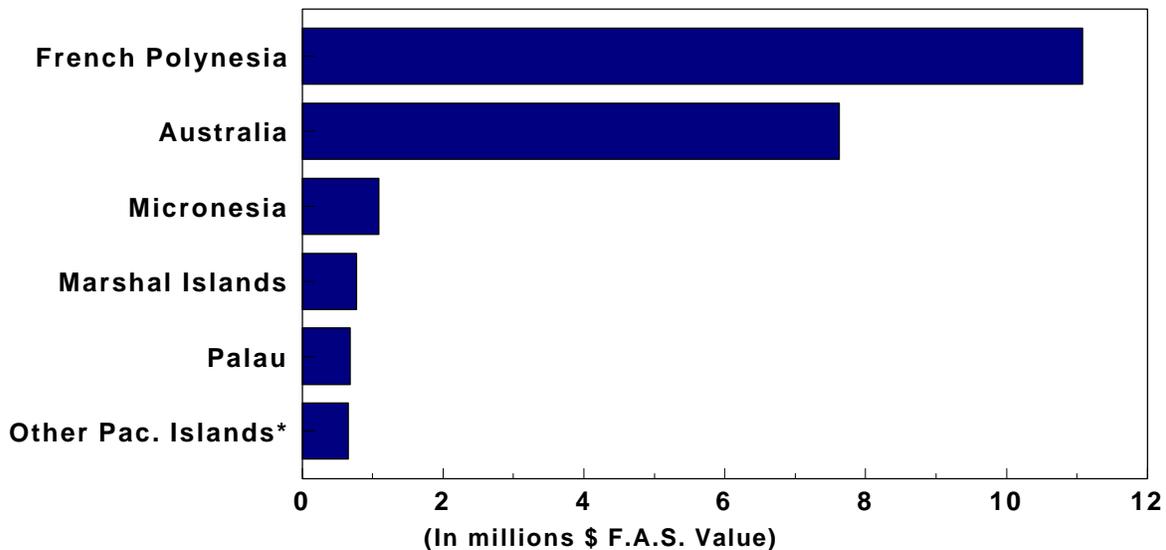
By Anita Katial Zemany, Agricultural Marketing Specialist

The Oceania region embodies territories and nations as large as Australia and New Zealand, and as small as Micronesia and Palau. For wood products, some parts of Oceania serve as competition, while others offer an opportunity for U.S. exporters. Recently, a U.S. industry representative visited the region to explore opportunities for U.S. wood products and concluded that trade servicing would be an asset to educating target audiences interested in increasing purchases from the United States. In total, U.S. wood products exports to Oceania were valued at \$69 million in 1999, of which nearly one-third consisted of softwood lumber (\$19.3 million) and treated lumber (\$2.5 million). In the first quarter of 2000, U.S. softwood lumber exports to the region increased by 14 percent. Douglas-fir made up \$16.2 million (84 percent) of softwood lumber exports to the region in 1999. While Australia imports 30 percent of total U.S. softwood lumber exports to Oceania, the remaining 70 percent goes to areas often overlooked by U.S. softwood producers.

French Polynesia

This territory of France include five archipelagoes (Makatea, Banaba, Kiribati and Nauru are among the largest islands). The territory has a population of 242,073 people and a per capita GDP of \$10,800 (1997 estimate). French Polynesia's primary import partners are France and the United States. Tourism accounts for 20 percent of the territory's GDP and is a primary source of hard currency earnings. The territory continues to benefit from a five year development agreement with France aimed at economic development and job creation. On the domestic side,

U.S. Softwood Lumber Exports to Oceania Totalled \$21.8 million, in 1999



*Other Pacific Islands include: British Pacific Islands, New Zealand, and Western Samoa

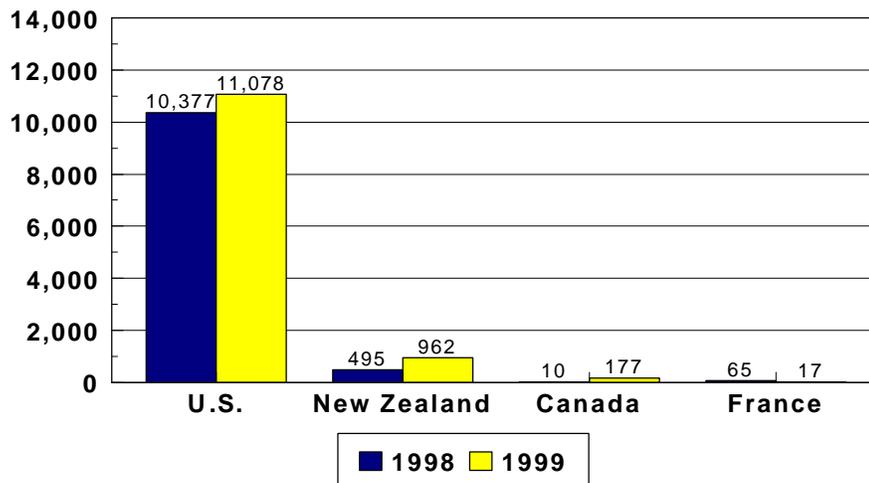
Caribbean pine has been planted on plantations throughout French Polynesia since 1977. Harvests from these plantations are destined for distant islands with very small populations. Telephone and electricity poles are generally made of wood and shipped to the larger islands. Furthermore, radiata pine was discovered to be a potential competitor with Douglas-fir, although builders in French Polynesia claimed it had approximately 30 percent less strength characteristics, making it less desirable. Douglas-fir is reportedly used for Tahitian resort bungalows, beams, wood frame construction, and exterior use in homes.

French Polynesia has instituted social programs to build homes for its citizens. These programs are centered in Tahiti and Moorea, where approximately 5,000 homes will be built from 2000-2004, at 72 square meters each. Additional construction will be supplied to islands beyond those in the first program and to replace homes destroyed by weather disasters. For these projects, Douglas-fir has been specified for the framing of the homes.

Traditionally, U.S. softwood lumber has been a highly desired product among French Polynesian builders. However, low cost lumber from other countries is now being imported and is beginning to displace Douglas-fir lumber from the United States. In 1999, French Polynesia imported over \$11 million of softwood lumber from the United States, in comparison to Australia which imported \$8 million. In addition, U.S. market share in French Polynesia increased nearly 7 percent over the previous year. New Zealand and France, other players in this market for softwood lumber, exported \$962,000 and \$17,000 respectively in 1999.

Palau

The Competition: Softwood Lumber Imports by French Polynesia 1998-1999 (in thousands \$ F.A.S value)



A democratic nation since 1994, Palau's estimated population is 18,146 inhabitants, with a per capita GDP of \$8,806 (as of 1997). An archipelago of which only eight of the islands are permanently populated, this nation's primary source of income is tourism, services, trade, and agriculture. In the 1970's the United States embarked upon an ambitious capital improvement program that was aimed at building major infrastructure projects (airport, docks, roads, water, power, and sewer systems). Projects in each of the district centers are now complete. Fisheries and tourism are the key sector industries. Tourists visiting Palau in 1998 and 1999 average 60,000 people. Japanese and Taiwanese tourists account for 50 percent of those visitors.

A major barrier to Palau's tourism expansion is its underdeveloped infrastructure. Currently underway is a project funded by the United States to expand infrastructure on the island of Babeldaob (the largest island). The project targets the building of a road that will encircle the island, believed to open up access for the construction of resorts and golf courses. As tourism expands, so will the demand for construction materials and equipment for building resorts, lodging, and other developments. Presently, Palau's domestic lumber production is insufficient to meet the expected growing demands of developers.

A concrete forming market, Palau is but one area in Oceania that U.S. softwood lumber producers may consider taking advantage of. Recent visitors found that there is keen interest in 2x4 building, wood use in concrete construction, and use of treated softwood lumber. As in French Polynesia, Douglas-fir is the predominant species of softwood lumber imported into Palau-typically used in concrete forming applications. In 1999, U.S. lumber exports of Douglas-fir to Palau totaled \$686,760, a 38 percent market share for that product. Radiata pine could pose a threat to current U.S. Douglas-fir exports to this part of Oceania, should New Zealand decide to aggressively promote the species as an alternative. U.S. Douglas-fir lumber exporters should stay alert to New Zealand's products and activities, and perhaps enhance their marketing efforts to ensure they remain a player in Palau.

Micronesia

The Federated States of Micronesia (FSM) consist of four districts-the Kosrae, Pohnpei, Truk and Yap, which gained independence from the United States in 1986. FSM's per capita GDP is \$1,760, with a population of 131,500 people. Out of a total purchasing power parity of \$220 million, FSM receives \$100 million of supplemented grant aid annually. The agriculture, fisheries, construction and tourism sectors are top priorities for economic development among the districts of FSM. Economic activity consists primarily of subsistence farming and fishing. A major constraint for the tourism industry is its geographic isolation and a lack of infrastructure. Throughout the 1990's, the United States provided \$1 billion in financial assistance to FSM for economic development. In addition, the Asian Development Bank, currently has loan projects totaling over \$20 million for FSM, aimed at land management, education and health care. Its goal is to increase economic and infrastructure development in the states. These projects have and continue to further the development of homes, bettering the lives of people throughout the FSM.

FSM's primary trading partners are the United States, Japan, and Australia. U.S. exports of softwood lumber to FSM have been steady over the past ten years (1990-1999) averaging slightly over \$1 million per year. In addition, treated lumber exports from the U.S. reached \$73,417 in

1999. Like French Polynesia and Palau, Douglas-fir is the prevailing species exported to Micronesia's states. While U.S. exports of softwood lumber to these states appear small, the market share in 1999 was 38 percent. In contrast, Australia, a closer neighbor of FSM, held a market share of just 3 percent for the same product, while Japan maintained a 22 percent market share in 1997.

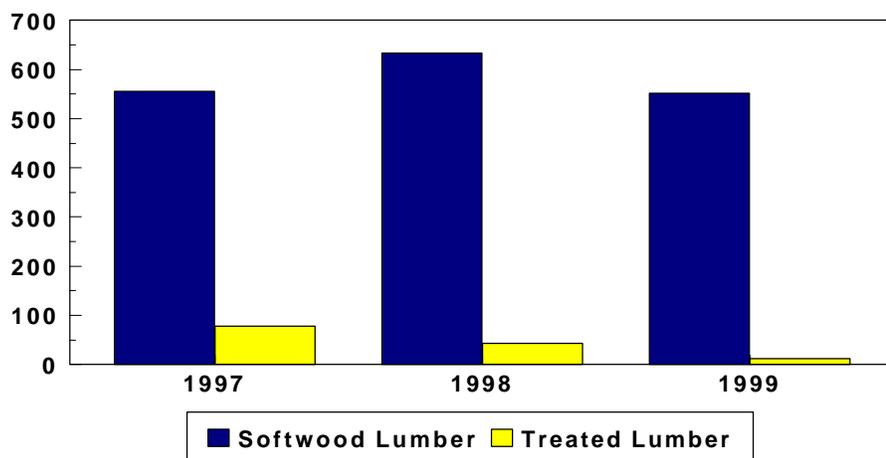
Australia

This is a country which needs no introduction to U.S. lumber producers. In 1999, Australia purchased nearly \$7.6 million of softwood lumber, still significant but a tremendous decline of \$40 million from 1996. As in other parts of Oceania, Douglas-fir has been the number one species of softwood lumber imported from the United States for the past three years. As a result of increased competition from radiata pine from New Zealand, the United States is now beginning to see a steep decline in exports of Douglas fir to this market, primarily due to competitive prices. In addition, new tax incentives to establish plantations (radiata pine is the most common softwood grown) is also a contributing factor. In 1998, imports of softwood lumber from New Zealand represented 61 percent of Australia's total softwood lumber imports. As Australia and New Zealand develop better milling techniques and as radiata pine plantations mature, competition will continue to increase.

Conclusions

Given the increased foreign competition in the region, U.S. exporters will need to aggressively

U.S. Exports of Softwood/Treated Lumber to Palau 1997 - 1999 (in thousands \$ F.A.S. value)



promote and expand their contacts in order to maintain market share in Oceania. French Polynesia and Palau show great potential, primarily due to their flourishing tourism sectors and constant developing infrastructure, thus, possibly offering further opportunities for U.S. softwood exporters in the future.

Sources: U.S. Trade Data, World Trade Atlas Data, and FAS Attache Report NZ9062, New Zealand, Palau