



Global Wood Markets: Consumption

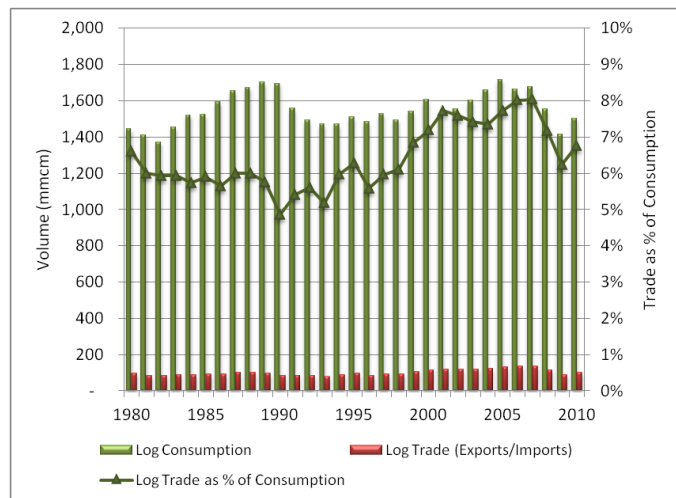
Timberland owners are not completely dependent on the local markets for timber and wood products where their trees are grown. There is a tremendous market for timber and forest products around the world. Millions of cubic meters of wood move across international borders every year. Some of the countries that consume the most wood are major importers, while others import very little or are net exporters.

Logs

Figure 1 compares global log consumption and trade (imports/exports) through 2010. The dip in volume in the early 1990s reflects the impact of the dissolution of the Soviet Union and the previous low point in US housing starts. The falloff after 2007 reflects the recent sustained collapse in US housing starts.

Note that the trade volume is a very small part (6.8%) of total consumption. Why is the log trade so small? First, a large portion of log volume is low value wood that is uneconomical to export, so it is processed locally into higher value products (which might then be exported). Second, many governments prohibit or discourage log exports and encourage at least some processing in the home country, creating jobs and higher value exports. While a small percentage of total production, the total volume of logs exported (and imported) in 2010 was 102 mm cubic meters, a volume slightly more than what China produced in that year (93 mmcm).

Figure 1. Global Log Consumption and Trade

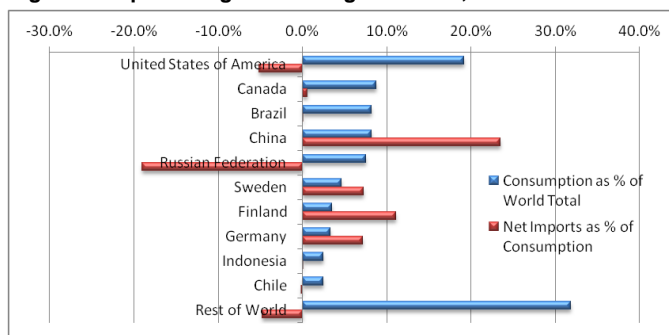


Source: UN FAO

Figure 2 shows the top ten log consuming countries in 2010 and the percentage of consumption that net imports (imports minus exports) accounted for in those countries. We use net imports here because most countries, even the big importers like China, move logs and wood products in both directions. A negative net import bar means the country exports more than it imports.

Note the difference between Brazil and China. Each accounted for 8.2% of global log consumption in 2010 (Brazil actually consumed 0.5 mmcm more logs than China), but Brazil's net imports amounted to only 0.02% of its consumption while China's net imports made up 23.5% of its consumption.

Figure 2. Top Ten Log Consuming Countries, 2010

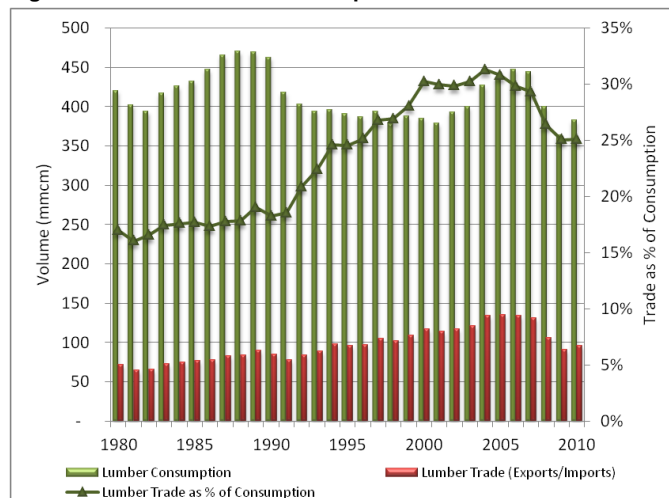


Source: UN FAO

Lumber

Figure 3 compares global lumber consumption and trade through 2010. Lumber trade volume is a much larger part (25.1%) of total consumption: this indicates a large portion of domestically consumed logs are converted into lumber that gets exported. Lumber trade volumes grew steadily between 1980 and 2005. This reflects (in part) the expansion in shipments of radiata pine lumber from New Zealand and Chile into the United States during a steady expansion in housing starts and shipments of lumber from many countries into a rapidly growing China.

Figure 3. Global Lumber Consumption and Trade

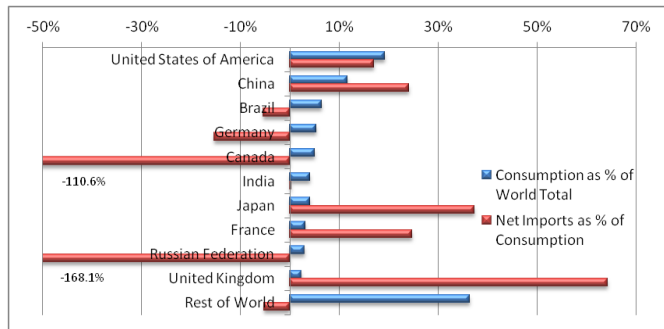


Source: UN FAO

Figure 4 shows the top ten lumber consuming countries. The US appears at the top of the list again, but here, imports are a much larger component of consumption. Canada and Russia are top-ten lumber consumers, but both export more lumber than they consume.

Global Wood Markets: Consumption -- (cont'd)

Figure 4. Top Ten Lumber Consuming Countries, 2010

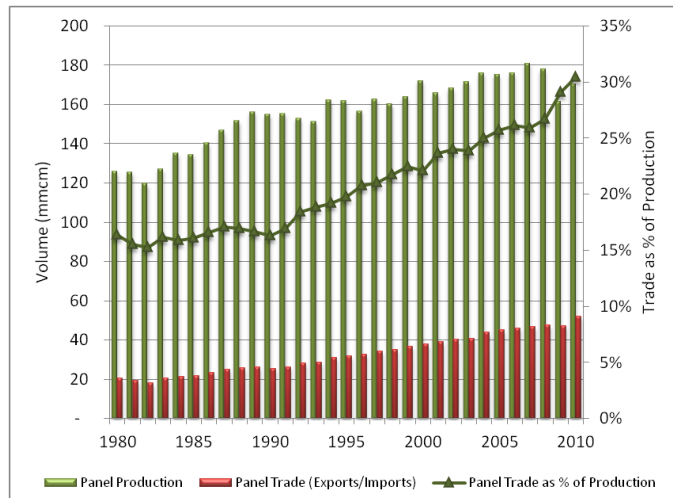


Source: FAO

Panels

Figure 5 compares global panel consumption and trade. Consumption in 2010 was 50% higher than in 1980 and trade volumes increased 175% over that period.

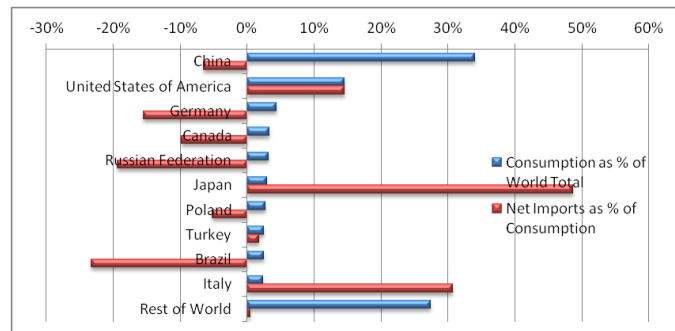
Figure 5. Global Panel Consumption and Trade



Source: UN FAO

Figure 6 shows the top ten panel consumers. China overtook the US as the world's largest producer and consumer of panels in 2003. US consumption has decreased slightly since then while China's consumption is 133% higher. China does not really "consume" all these panels: a large share of the panel consumption volume is actually further processed into such products as furniture and kitchen cabinets and exported to the rest of the world. The US consumed about 15% of the world panel volume in 2010, and imports accounted for about 15% of US consumption

Figure 6. Top Ten Panel Consuming Countries, 2010

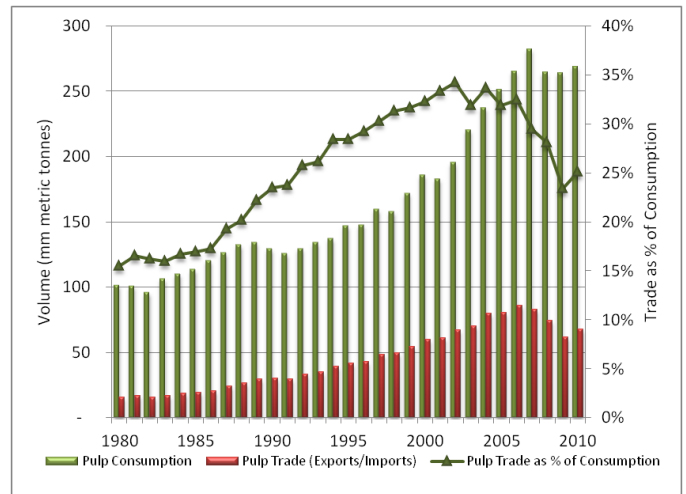


Source: UN FAO

Pulp

Figure 7 shows global pulp consumption and trade through 2010. Pulp and paper consumption has historically been strongly correlated with economic activity, so the leveling-off of consumption beginning in 2007 largely reflects the state of the global economy. (While the internet and electronic media have had an impact on consumption of some types of paper (e.g., printing and writing papers and newsprint), they will not reduce demand for pulp in other areas such as tissues and sanitary products.)

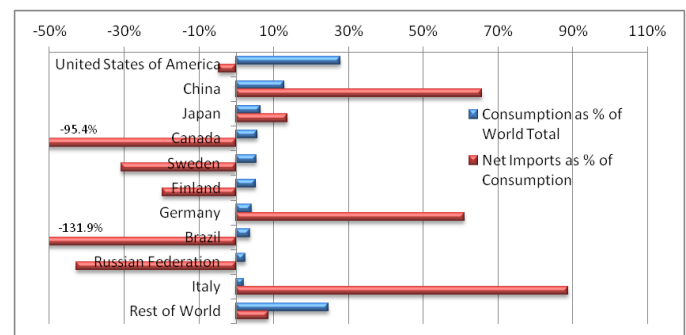
Figure 7. Global Pulp Consumption and Trade



Source: FAO

Figure 8 shows the top ten pulp consumers in 2010. Brazil exported more pulp than it consumed, while Canada exported about as much as it consumed

Figure 8. Top Ten Pulp Consuming Countries, 2010



Source: FAO

Summary

The global trade in logs and forest products enables timber growers to access markets outside their local area. Countries like New Zealand, Chile and Uruguay can produce more timber and wood products than their relatively small populations need and export large volumes to the big importing countries. The trade also allows countries to consume more wood than they can produce: China was the fifth largest producer of logs in 2010, but it could only produce about 75% of the logs it consumed.



About FourWinds Capital Management

FourWinds is a specialist in global commodities and natural resources with products investing across energy, metals, agriculture, timber, water, waste, and alternative energy.

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About the Fund

Phaunos Timber Fund Limited is an LSE-listed investment fund (PTF) managed by FourWinds Capital Management. It invests in timberland and timber-related assets that enhance its timberland returns. For additional information on the fund, please visit www.PhaunosTimber.com.

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Fundamentals of Phaunos Timber Fund

Listing Date	20-Dec-2006
Shares outstanding (Ordinary)	537.1 m
Latest unaudited NAV (30 June 2011)	\$1.16
Number of investments/countries/continents	11 / 9 / 6

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