

Plywood News:

2nd April, 2018

How time flies? It feels like yesterday that I last wrote to you. It has however been almost ½ a year since I last wrote to you with our Treecraft market debrief. This does not mean however that I have been dozing off. Quite on the contrary, I have been so busy building our Treecraft team, growing our client base, . . . Today on this quiet Eastern Monday I finally have found a quiet moment to share my market analyses with you.

1./ The plywood market in China:

a.) Wood based panel production in China:

Something I asked myself many times but which I always found hard to visualize. Now after some desk research I have come to the conclusion that the world produces about 500.000 ctrs. (provided you load 50 m3 in a container) of wood based panels on a monthly basis. -I put it in containers as it more easy to visualize - Of this 500.000 containers it is said that 300.000 ctrs. are produced in China. 30% or 100.000 containers apparently come out of Shandong province. If Treecraft ships 100 containers in a good month, it would mean we are good for 0,1% of the Shandong production . . . This humbles us but also shows that we still have a lot of opportunity for growth. This is all nice and dandy but it mainly underlines the importance of our industry to China. Consequently it also boosts my confidence that even though the regulator seems sometimes unforgivably tough on our industry, China cannot ignore the economic importance of its plywood industry.

b.) The blue sky initiative:

The blue sky initiative of the Xi administration however continuous – and will most likely in the light of the changed constitution continue for the years to come -. Although we welcome this initiative we realize that in the short time it will cause havoc on many fronts. From the 1st of April, the environmental protection force will stop all factories without environmental assessment procedures. This enforcement will be across the board. The means that all levels of the production chain will be effected from small peeling units to large plywood mills. Whereas the first wave of controls were targeted to factories that had no environmental friendly production facilities, it is now targeted at companies that failed to implement procedures that ensure the green production. Some smaller outfits around Linyi and Xuzhou have already received notices of suspension of production. This wave will again cause a decline in production but is believed to

TREECRAFT CHINA
Room 605, 1st Building, Jiujiing Road 655,
Jiuting Town, 201615 Shanghai
P. 0086 21 5988 3287 | F. 0086 21 5988 3242

TREECRAFT BELGIUM
Pathoekeweg 130-1, 8000 Brugge,
West Vlaanderen
P. 0032 51 301 669 | F. 0032 51 311 101

VAT: BE0674613323

www.treecraft.be

have less far fetching consequences as the early enforcements. In addition of the blue sky initiative, plywood manufacturers received this week a notice that the environmental protection department will soon start to charge an environmental tax. Specifics on this environmental tax are yet to be communicated. We will of course keep you informed.

c.) Inflation:

In line with the global economy and strengthened by the regulations in China, materials and labor costs are on the rise. Normally in Spring – when the harvesting of logs is in full swing – prices of raw-materials should drop. They however stay stable. The blue sky initiative can partially explain this, but the heavy rain also did not help. There are not sufficient dry veneers available, which pushes up prices. Attention for delamination! Our QCs are being asked to especially watch out for to wet plywood. Labor costs are also under pressure especially for those unskilled laborers as it gets more and more difficult to find people willing to work in factories. Chinese New year is typically a time where salaries are renegotiated. We have reports of an average of 7% salary increase. Gas costs also increased ...

d.) Export orders competing with local orders for the first time:

For the first time in my career I can see that export orders are competing with local orders. In the past local orders were normally less interesting. Albeit that local orders were faster rotating, they always fetched a substantial lower price and assumed a higher risk. Today a lot of mills seem more interested to take local orders because quality demands are lower, prices are higher and credit risks seems to be more under control than before.

e.) TCPI, the Treecraft price index:

As it is sometimes hard to establish a general trend of the pricing we have internally established the Treecraft Price Index. This index takes into consideration the RMB~EURO fluctuation, the sea-freight fluctuation, the product cost fluctuation (raw-materials, labor, local transportation,...) and compares it with the same period one year ago. This needs to show general evolution to the prices.

TCPI = 1.02

TREECRAFT CHINA
Room 605, 1st Building, Jiujiang Road 655,
Jiuting Town, 201615 Shanghai
P. 0086 21 5988 3287 | F. 0086 21 5988 3242

TREECRAFT BELGIUM
Pathoekeweg 130-1, 8000 Brugge,
West Vlaanderen
P. 0032 51 301 669 | F. 0032 51 311 101

VAT: BE0674613323

www.treecraft.be

This index of course is only an indication but shows the relative price fluctuation compared to one year ago on a very general level, yet should give you some indications. Hope this helps.

II. The Chinese plywood market in the world:

a.) China and its competitors: (geographically)

After a big run in 2016, EU imports of Chinese (mixed) plywood has been slowing in 2017. The decline was mainly seen in the lower grade imports from China. Imports of tropical hardwood plywood however has been rising in 2017 and partially offset the decline in lower quality imports. This is in line with the predictions we made in our previous newsletters. The polarization of the market continuous. Up (quality) or Down (price). Once more the middle class is losing out. The direct imports of hardwood plywood from other countries also increased (10%) year on year (2016/2017). Indonesia has seen the biggest absolute gain in quantity (+15,000 cu. m) and Brazil, has seen the biggest relative gain of 20% in volume of tropical plywood shipped (hardwood). Indonesian plywood appears to have profited from the first FLEGT licenses which allow importers to bring in Indonesian products without any further due diligence. EU Imports also increased from a range of smaller supplying countries including Vietnam, Thailand, and Morocco. Malaysia stayed stable and Gabon's exports declined. These Marco economic figures – we collected from various sources - do not resonate with the results we at Treecraft have been booking. Even though we have seen a movement towards better or cheaper plywood, we can still show a very encouraging growth of 25% in terms of volumes shipped.

b.) China and its clients (Geographically)

The general macro-economic data show a decline in imports in Germany, Belgium and the Netherlands towards the end of 2017. France and Poland seem to have been able to keep the volumes stable whereas the U.K. has seen its imports fall sharply after the summer of 2017. As we are hardly active in the U.K. and only just started in Germany I find it hard to comment on those two markets. In addition we feel that the market in France and Holland is very bullish where Belgium might be considered stable instead of in decline. We can also see a larger concentration of imports with fewer players. More and more regulatory requirements have pushed out smaller players without the needed resources required to meet the due diligence requirements under the EUTR regulations and/or FSC.

III. Treecraft, probably the best plywood in the world:

On a micro level, I feel we are going strong. We get more and more client that specifically request for Treecraft plywood which gives me energy and further increases my passion for this business. Furthermore I'm happy to announce that Grace Wang has joined our team from Solid and will act as our financial advisor. Finally very proud also to announced that Treecraft most likely will obtain special import right to Argentina thanks to our wonderful team there!

Finally as always, do not hesitate to pass me your orders at good prices. I will process them with a smile.

Best Personal Regards,

Shirley Ye,

Probably the best plywood in the world.

TREECRAFT CHINA
Room 605, 1st Building, Jiujiang Road 655,
Jiuting Town, 201615 Shanghai
P. 0086 21 5988 3287 | F. 0086 21 5988 3242

TREECRAFT BELGIUM
Pathoekeweg 130-1, 8000 Brugge,
West Vlaanderen
P. 0032 51 301 669 | F. 0032 51 311 101

VAT: BE0674613323

www.treecraft.be