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Wood Products Market Brief

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Report Highlights:

The Korean wood industry relies on imports from over 100 countries for more than 80 percent of its consumption. In 2011, the total value of Korean wood imports increased by 12 percent to \$2.6 billion. For the same period, U.S. wood exports to Korea totaled \$206 million, slightly less than in 2010, but still ranking as the fifth largest supplier to the market. The KORUS FTA, which will be implemented March 15, 2012, will bring about new export opportunities for U.S. suppliers.

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SECTION I. MARKET OVERVIEW

The Korean wood industry relies on imports from over 100 countries for more than 80 percent of its consumption. Among these countries, about 85 percent of the total value of all imports comes from only 10 countries. Over the past year the total value of Korean wood imports increased by 12 percent to \$2,574 million. In 2011, U.S. wood exports to Korea totaled \$206 million, slightly less than \$209 million in 2010, but still ranking fifth overall.

In recent years, China emerged as the biggest wood supplier to Korea, followed by New Zealand, Canada, and Malaysia. Wood imports from China in 2011 totaled \$564 million, which accounted for 23 percent of total imports and an increase of 37 percent compared to the previous year. In addition, imports from New Zealand totaled \$380 million; Canada, \$263 million; and Malaysia, \$258 million.

In the Korean market, U.S. woods are generally considered higher quality than other imported woods. However, the majority of Korean demand is satisfied mostly by imports from China and Southeast Asia due to competitive price and suppliers' ability to meet customer specifications. Korean consumer tends to purchase customized wood products in different sizes including width, length, and depth than U.S. standard sizes. According to industrial resources, it is hard for Korean importers to find U.S. exporters who are willing to sell their products in different sizes. This situation has brought about a decrease in imports from the United States.

Korea-U.S. FTA implementation will bring opportunities for U.S. wood exporters. The implementation date has been set March 15, 2012. Before the Korea-U.S. FTA implementation, the highest tariff for wood products is 8 percent. Korea-U.S. FTA will zero out tariffs on the wood

products either immediately after the implementation or in classified schedules depend on each wood products. Tariff elimination affected by Korea-U.S. FTA implies U.S. wood price competitiveness which is one of current drawbacks of U.S. wood position in Korean market but soon to be overcome.

For more information about the FTA tariff schedules for different lumber products, please visit: www.atoseoul.com or contact the Seoul ATO (refer to section III for further contact information).

Although U.S. imports declined in recent years, there are opportunities for the United States to regain market share. Demand for U.S. woods has been voiced from diverse market segments. The demand for premium quality from consumers, for use in furniture, sports flooring businesses, Do-it-Yourself (DIY) furniture products, national wood path park projects, and the Korean wood based traditional house "Hanok" village projects are several of the areas promising opportunities for U.S. market growth.

According to industry sources, U.S. imported materials are mostly consumed domestically as finished products or construction, and not re-exports as a finished products back to the United States.

The demand for high quality coupled with increasing price competitiveness due to the KORUS FTA will open up opportunities for U.S. wood industry to gain a greater share of the Korean market.

| Advantages | Disadvantages |
|--|--|
| Wood consumption in Korea is dominated by imported woods, accounting for more than 80 percent of the market. | Chinese exports account for 23 percent of total imports while the United States accounts for only 8 percent. |
| Increasing consumer interest in high quality products such as furniture and Do-it-Yourself furniture. | Although there is demand for high quality furniture and Do-it-Yourself furniture, the demand is still small, so promotion is needed. |
| High quality woods are needed in national wood path project businesses in Korea. | U.S. wood prices are less competitive and do not meet Korean consumer's needs in customized sizes. |

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

The United States is the fifth largest supplier of wood in Korea and accounts for 8 percent of total wood imports. The biggest strength for U.S. wood is high quality; however, high price hurts the demand for U.S. wood. Korea-U.S. FTA will be implemented on March 15, 2012. When the FTA is implemented, the tariff on woods will be zeroed out in the upcoming future (with the tariff schedule depending on the product classification). The FTA will bring new opportunities for U.S. lumber exports by lowering the cost.

1. Entry Strategy

There are several annual exhibitions in Korea for the wood industry. Below is the list of the fairs will be held in 2012.

| <i>Fair</i> | <i>Date</i> | <i>Place</i> | <i>Visitors</i> | <i>Booth(domestic/foreign)</i> |
|--|------------------------|---------------------|------------------------|---------------------------------------|
| Kyung Hyang Housing Fair 2012 | Feb 22-26, 2012 | Kintex, Ilsan | 152,056 | 2313/235 |
| Seoul Living Design Fair 2012 | March 7-11, 2012 | Coex, Seoul | 154,832 | 168 Companies |
| The 6th Busan Housing Interior Exhibition | March 29-April 1, 2012 | Bexco, Busan | 30,000 | 200/0 |
| The 29th MBC Construction Expo | April 28-May 1, 2012 | Setec, Seoul | 200,000 | 700/0 |
| Housing Brand Fair 2012 | May 22-26, 2012 | Coex, Seoul | 42,203 | 1580/41 |
| Korea International Furniture and Interior Fair/ Woodworking Industrial Fair 2012 | Aug 22-26, 2012 | Kintex, Ilsan | 15,663 | 704/13 |
| The 30 th MBC Construction Expo | Aug 30-Sep 2, 2012 | Setec, Seoul | 200,000 | 700/0 |
| The 17 th Seoul International Building Material and Decoration Fair | Aug 30-Sep 3, 2012 | Coex, Seoul | 33,283 | 479/81 |

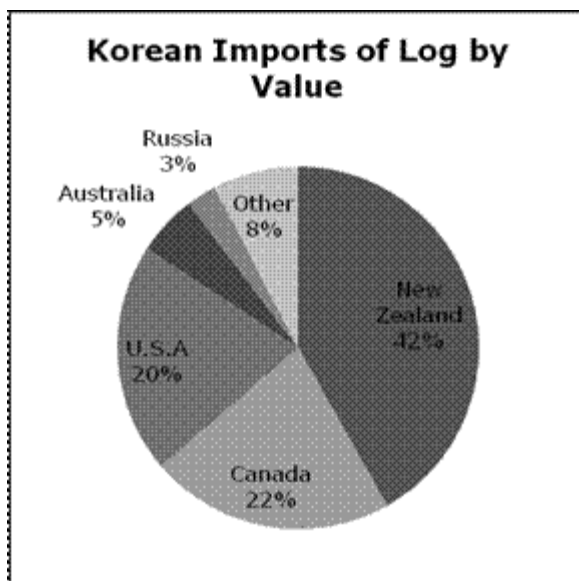
2. Market Size, Structure, Trends

Logs: HS 4403

In 2011, Korean imports of logs increased by 9 percent to \$794 million. New Zealand is the biggest supplier of the logs, accounting 42 percent of total imports. With a 47 percent increase, Canada replaced the United States as the second largest supplier. Although U.S. wood and Canadian wood are both considered high quality logs in Korea, price competitiveness of Canadian logs attracted the Korean consumers. The United States totaled \$163 million, slightly less than the previous year \$168 million accounting 20 percent of market share.

| Logs HS 4403, Unit: US\$1000, m ³ | | | | |
|--|---------|-------|---------|-------|
| | 2010 | | 2011 | |
| | Value | Vol | Value | Vol |
| Total | 725,689 | 3,614 | 793,793 | 3,445 |
| New Zealand | 312,190 | 2,125 | 332,149 | 2,087 |
| Canada | 118,048 | 248 | 173,109 | 274 |
| U.S.A | 168,108 | 544 | 163,476 | 461 |
| Australia | 36,850 | 272 | 43,078 | 285 |
| Russia | 34,300 | 185 | 21,477 | 104 |
| Other | 56,193 | 240 | 60,504 | 234 |

Source: The Korea International Trade Association

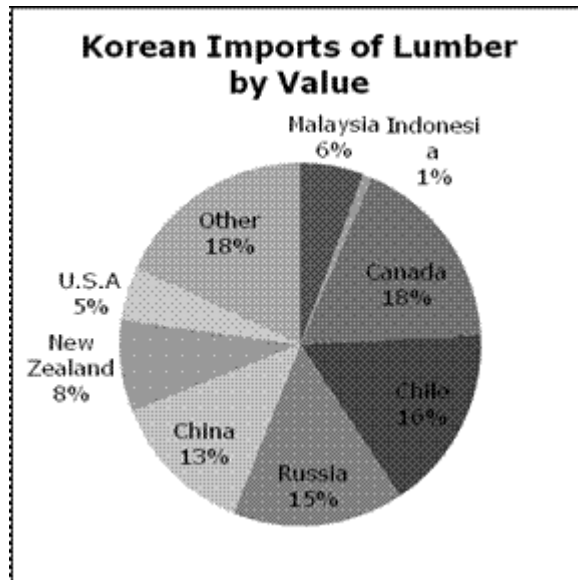


Lumber: HS 4407

Lumber imports for 2011 increased by 32.5 percent to \$437 million. The largest supplier for lumber in Korean market is Canada followed by Chile, Russia and China, while the United States ranked the seventh. There was significant increase for Chile by 66.5 percent of increase; New Zealand, 54 percent; Canada, 30 percent and China 30 percent. Reasons for the biggest increase from Chile fall onto two major matters. First reason is price competitiveness. Korea-Chile FTA brought no tariffs on lumber which lowered its cost. Another reason is increase imports of radiate pine palette. Korean needs for palette increased severely due to the great success of Korean exports in 2011 when Korea reached the seventh biggest trade nation in OECD countries. According to wood industrial resources, Korean wood importers first reached out to U.S. wood industry for supplying radiate pine palette. However, Korean consumers' needs for different size than U.S. standard became failure of trade between two countries. Instead, Chile satisfied Korean consumers' needs which led 66.5 percent increase compared to the previous year. Despite of total increase in lumber imports from other countries, U.S. exports did not increase.

| Lumber HS 4407, Unit: US\$1000, m ³ | | | | |
|--|---------|-----|---------|-----|
| | 2010 | | 2011 | |
| | Value | Vol | Value | Vol |
| Total | 330,047 | 720 | 437,334 | 899 |
| Canada | 59,161 | 118 | 77,348 | 142 |
| Chile | 43,561 | 138 | 72,519 | 211 |
| Russia | 50,440 | 165 | 66,733 | 187 |
| China | 43,745 | 35 | 56,756 | 42 |
| New Zealand | 23,402 | 84 | 36,038 | 118 |
| Malaysia | 25,312 | 46 | 24,823 | 38 |
| U.S.A | 20,593 | 25 | 20,599 | 24 |
| Indonesia | 3,729 | 3 | 3,441 | 3 |
| Other | 60,104 | 106 | 79,077 | 137 |

Source: The Korea International Trade Association



Veneer/ Plywood: HS 4408/ HS4412

Veneer imports decreased by 3 percent to \$112 million in 2011, while imports from the United States decreased 24 percent to \$1 million. The biggest supplier for veneer is China accounting for 51 percent of the market share followed by Malaysia, 21 percent and New Zealand, 10 percent. Although statistically the United States shares 5 percent of Korean veneer market, according to the market resources, U.S. veneer is imported via China and Southeast Asia through outsourcing due to low labor cost in these countries.

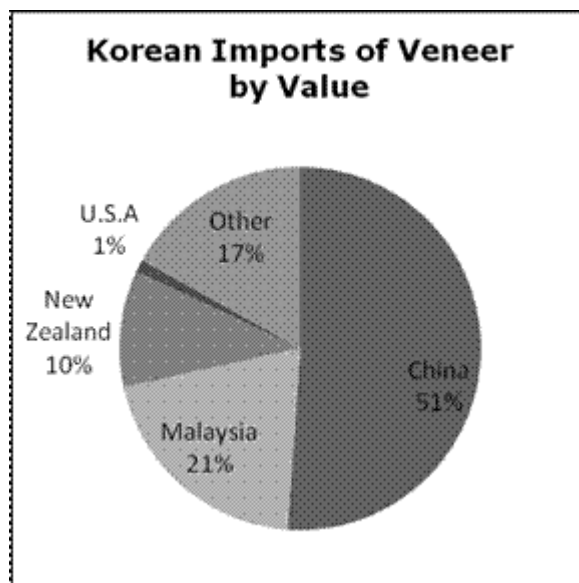
Plywood imports increased by 12.7 percent to \$739 million. The major suppliers for plywood are China and Malaysia accounting for 40 percent and 30 percent, respectively.

Imports from the United States have been decreased by 20 percent, while the largest supplier China increased shipments by 129 percent to \$294 million.

| Veneer HS 4408, Unit: US \$1,000, m ³ | | | | |
|--|---------|-----|---------|-----|
| | 2010 | | 2011 | |
| | Value | Vol | Value | Vol |
| Total | 115,439 | 139 | 112,447 | 126 |
| China | 52,340 | 31 | 57,482 | 41 |

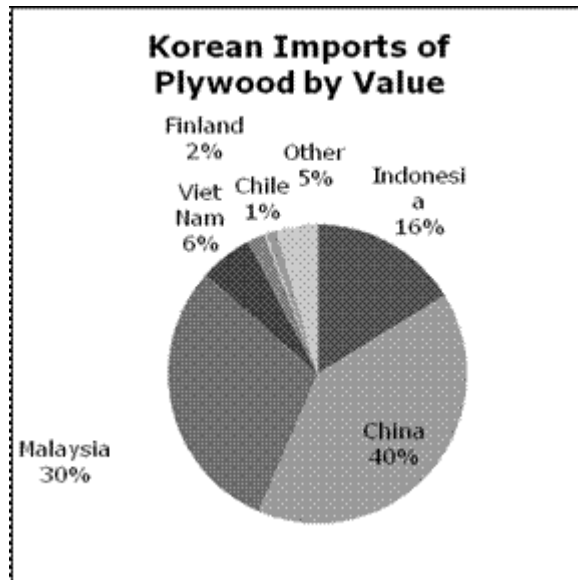
| | | | | |
|-------------|--------|----|--------|----|
| Malaysia | 34,220 | 65 | 23,007 | 34 |
| New Zealand | 12,605 | 28 | 11,699 | 23 |
| U.S.A | 1,678 | 0 | 1,280 | 0 |
| Other | 14,596 | 15 | 18,979 | 28 |

Source: The Korea International Trade Association



| Plywood HS 4412, Unit: US \$1,000, m ³ | | | | |
|---|---------|-----|---------|-----|
| | 2010 | | 2011 | |
| | Value | Vol | Value | Vol |
| Total | 476,356 | 813 | 536,747 | 739 |
| China | 94,396 | 143 | 216,018 | 294 |
| Malaysia | 249,031 | 502 | 161,501 | 259 |
| Indonesia | 64,177 | 73 | 86,925 | 88 |
| Viet Nam | 28,468 | 67 | 30,826 | 65 |
| Finland | 13,492 | 8 | 10,110 | 5 |
| Chile | 499 | 0 | 5,928 | 7 |
| U.S.A | 1,827 | 0 | 1,463 | 0 |
| Other | 24,466 | 20 | 23,976 | 21 |

Source: The Korea International Trade Association



MDF/ Particleboard: HS 4411/ HS 4410

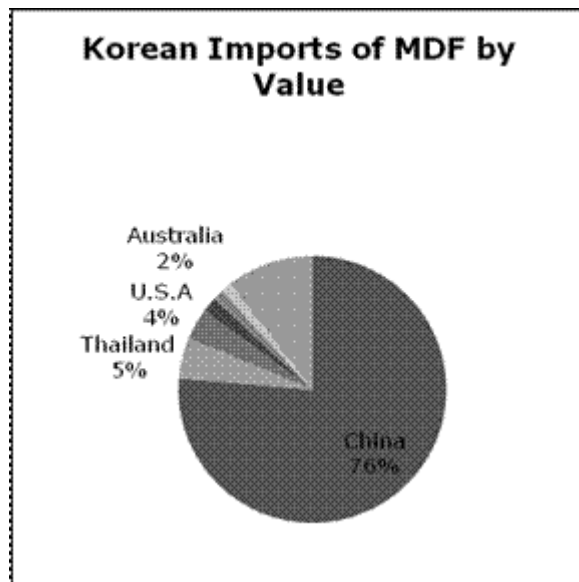
In 2011, Medium Density Fiberboard (MDF) imports decreased 25 percent to \$158 million. Among the top five supplying countries, the United States increased by 53 percent of its imports, while imports from the rest of the world decreased. Imports from China decreased 13 percent and Australia, 22 percent.

Particle board imports increased 7.5 percent to \$142 million. Particleboard is mainly imported from Thailand, accounting for 46 percent of total imports followed by Romania and the United States. However, imports from Thailand decreased by 18 percent while the United States increased exports to Korea by 100 percent to \$9 million, ranking as third largest supplier.

| MDF HS 4411, Unit: US \$1,000, m ³ | | | | |
|---|--------|-----|--------|-----|
| | 2010 | | 2011 | |
| | Value | Vol | Value | Vol |
| Total | 75,564 | 158 | 56,829 | 86 |
| China | 49,674 | 94 | 43,388 | 62 |
| Thailand | 9,614 | 28 | 2,783 | 7 |
| U.S.A | 1,399 | 1 | 2,137 | 4 |
| Australia | 1,366 | 3 | 1,063 | 2 |
| New Zealand | 2,160 | 5 | 744 | 1 |

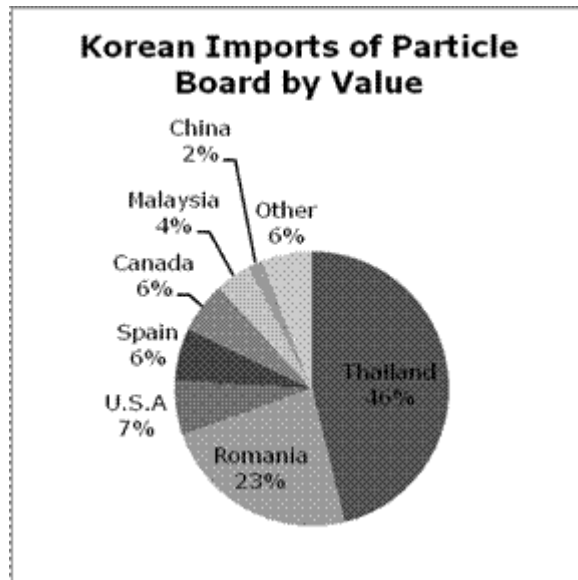
| | | | | |
|----------|-------|----|-------|---|
| Malaysia | 2,939 | 9 | 731 | 1 |
| Other | 8,412 | 18 | 5,983 | 9 |

Source: The Korea International Trade Association



| Particle Board HS 4410, Unit: US \$1,000, m ³ | | | | |
|--|---------|-----|---------|-----|
| | 2010 | | 2011 | |
| | Value | Vol | Value | Vol |
| Total Sum | 132,785 | 523 | 142,729 | 502 |
| Thailand | 80,267 | 346 | 65,877 | 246 |
| Romania | 15,837 | 71 | 33,342 | 119 |
| U.S.A | 4,551 | 9 | 9,108 | 21 |
| Spain | 3,789 | 15 | 9,018 | 28 |
| Canada | 12,204 | 26 | 8,560 | 19 |
| Malaysia | 8,704 | 36 | 5,895 | 22 |
| China | 4,912 | 9 | 2,553 | 4 |
| Other | 2,521 | 11 | 8,376 | 43 |

Source: The Korea International Trade Association



3. Market Trends

Increase in DIY Products

During the current recession, there has been increased demand in Korea for Do-it-Yourself (DIY) furniture products. DIY products use high quality hardwoods for self-assembled furniture. It is mostly distributed through home-shopping and Internet channels. Home-shopping channels mainly target for women in their 40-50s to purchase their products at their houses while watching TV. Demand for DIY is increasing year-by-year, estimating \$64 million in 2012. The graph below shows estimated increasing value of DIY for home-shopping channel from 2012 to 2015. Increased demand for DIY is alternative opportunity for U.S. hardwood regarding decrease in U.S. furniture market in Korea where U.S. hardwood used to be major supplier. Despite of increasing demand, the DIY culture has yet to enter the mainstream Korean market. In order to increase the dissemination of DIY culture, promotion would be necessary.

| Home-shopping by Category: Value 2010-2015 Unit: KRW billion | | | | | | |
|--|------|-------|--------|--------|--------|--------|
| | 2010 | 2011 | 2012 e | 2013 e | 2014 e | 2015 e |
| DIY and Gardening | 60.4 | 61.6 | 63.6 | 65.7 | 67.9 | 70.2 |
| House wares And Home Furnishings | 401 | 442.3 | 485.4 | 525.7 | 569.4 | 616.7 |

Source: Euromonitor International from trade associations, trade press, company research, trade

interviews, trade sources

Note: e=estimated

Increase in national wood path projects

According to the Korean Ministry of Forestry, wood path parks will be constructed around Buckhan Mountain. There are several areas where the wood path projects are going to be created in Korea with national wood path projects. Geumsan, Chongnam province, was also selected as 2012 green path project with \$0.8 million budget. Busan is another city where 1.8 km of wood path will be built in with \$18 million by September 2012. The challenges for the United States is to promote its own products with high quality and better price competitiveness affected by Korea-U.S. FTA implementation.

Hanok village projects in China

China has decided to build wood based Korean traditional house hanok village in Ning-an city, Heilongjiang province. Including hanok style hotels, 15,000 hanok houses will be constructed in projects involving Korean construction companies. A hanok is a primarily wooden structure that requires high quality wood products. The projects currently import woods majority from Russia for Ning-an. However, according to trade sources, Xian-yang City is also considering building another hanok village in China. New hanok projects in Xian-yang city could be opportunities for the U.S. woods to be imported as main sources.

SECTION III. FURTHER INFORMATION AND KEY CONTACTS FOR MARKET ACCESS

Exports requirement: Please see APHIS' website

(http://www.aphis.usda.gov/import_export/plants/plant_exports/index.shtml) for phytosanitary requirements for shipping wood to Korea.

For more information, please contact the U.S. Agricultural Trade Office, U.S. Embassy Seoul, Korea.

U.S. Agricultural Trade Office

Korean Address:

Room 303, Leema Building

146-1, Susong-dong, Chongro-ku, Seoul, Korea

U.S. Mailing Address:

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APO, AP 96205-5550

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Fax: 82-2-720-7921

Email: atoseoul@fas.usda.gov

Website: www.atoseoul.com

Agricultural Affairs Office

Korean Address:

U.S. Embassy, 32, Sejong-ro
Chongro-ku, Seoul, Korea

U.S. Mailing Address:

U.S. Embassy Seoul, Unit 15550-AGAFF
APO, AP 96205-5550

Telephone: 82-2-397-4297

Fax: 82-2-738-7147

Email: agseoul@fas.usda.gov

For further information about sanitary and phytosanitary requirements, please contact:

USDA, Animal Plant and Health Inspection Service (APHIS)

Korean Address:

Room 303, Leema Building
146-1, Susong-dong, Chongro-gu, Seoul, Korea

U.S. Mailing Address:

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