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CHINA DOOR OPENS

By Stephen Jacobi¹

“In China anything’s possible and everything’s difficult”. This advice, from a China expert, is worth bearing in mind as the industry seeks to expand its bridgehead for New Zealand pine in China.

News this month of the formal opening of the New Zealand Wood Innovation Centre in Shanghai came as a welcome relief from the doom and gloom of the last few years. No-one denies that times are tough but this industry has consistently under-invested in its future. Trade and Enterprise and the six company shareholders in the Shanghai Centre deserve high praise for continuing to invest in market development in China.

China’s solid market fundamentals were thoroughly explored at the China Wood conference in November 2004. There is no doubt that the Chinese authorities are keen to expand the use of wood as an environmentally friendly, sustainable material. As reported from Shanghai, there is substantial and growing market interest in New Zealand pine applications. China has a long way to go before the State Forestry Administration can deliver on its goal to make China self sufficient in timber supply. In the interim the challenge for offshore suppliers is to ensure there is a well developed market for imported wood and that China’s import regime and domestic regulations do not discriminate in favour of local products.

Individual companies and the Shanghai Centre can address the first of these challenges. The second is a task for industry bodies working in close co-operation with the Government.

At the level of domestic regulations good progress has already been made in securing recognition for New Zealand pine for use in construction. Continuing attention will need to be paid to the downstream rules and standards giving effect to this recognition. Competitors in North America and Europe will have an interest in ensuring the playing field is tilted in their direction.

When it comes to the import regime, New Zealand is in the fortunate position of negotiating a free trade agreement with China. The sixth round of negotiations was held in Beijing in March. While the Chinese made significant cuts to tariffs when they joined the World Trade Organisation in 2001, tariffs on many added valued products are between 4 and 10%.

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New Zealand's FTA negotiators will need to do better than their Chilean counterparts. The Chile-China FTA concluded late last year claims to make 92% of Chilean exports duty free from July 2006 but it makes no meaningful gains on MDF, kraft pulp or paperboard. While the tariff on prefabricated buildings goes to zero from 10% in ten years, Chilean pine is not (yet) approved for use in construction.

A New Zealand-China FTA can be expected to focus even greater Chinese commercial attention on New Zealand. While Chile has got ahead of us it has made only limited progress. Our North American competitors are not even in the game. The Chinese will hang tough in this negotiation. They would prefer to make further concessions on wood as part of the much wider (but slower) WTO Doha Development Agenda. The industry will need to continue to press the Government to ensure it keeps wood as a high priority item in the negotiation.

Progress in China can be difficult but the rewards are worth it. The Shanghai Centre moves the industry forward, as will the FTA – provided we do better than Chile.