

Constraints

Canadian exporters face various constraints, including:

- ◆ a preponderance of small-capacity, state-owned mills with antiquated equipment, which lack effective pollution controls and have difficulty finding the right partner with adequate management and financial resources;
- ◆ strong competition from Pacific Rim and other surrounding countries;
- ◆ difficulties in financing purchases of imported machinery;
- ◆ a general lack of current and reliable information about domestic production, local companies and planned projects;
- ◆ difficulties in finding reliable agents and business partners;
- ◆ higher tariffs on value-added products such as paper and paperboard (approximately 15 percent) and doors and windows (18 percent), despite the fact that the import tariff on pulp has been reduced to zero; and
- ◆ the anti-dumping duties imposed on Canada, which have resulted in blocking Canadian newsprint from entering this market for the time being.

Despite the weakness in the domestic sector, growing international investment in the pulp and paper sector is creating opportunities to do business in China with proven clients from other markets.

Action Plan

The objectives of the Action Plan for this sector are as follows:

- ◆ to increase Chinese awareness and knowledge of Canadian products and technologies through missions, trade fairs and technical seminars;
- ◆ to collect and disseminate market intelligence and information on business and investment opportunities;
- ◆ to promote exports of high-quality paper, and actively pursue market opportunities for wood-based construction materials and value-added wood products;

- ◆ to co-operate with the Canadian Pulp and Paper Association (CPPA), the Pulp and Paper Research Institute of Canada (PAPRICAN), the Forest Engineering Research Institute of Canada (FERIC), Forintek Canada Corp., and counterpart Chinese associations and research institutes;
- ◆ to use the Memorandum of Understanding between Natural Resources Canada and the State Forestry Administration of China (signed in November 1998) to initiate projects leading to the transfer of technology and to the export of forest products and forest sector goods and services;
- ◆ to target projects supported by IFIs and assist in finding other sources of financing;
- ◆ to encourage a Team Canada approach to the China market by facilitating contact among Canadian equipment manufacturers, service providers and pulp, paper and value-added product suppliers;
- ◆ to assist Canadian companies in finding local representatives, agents, JV partners and other business partners in China; and
- ◆ to work closely with the private sector to market pulp and paper products in China.

Hong Kong

Business Environment

Wood, Value-added Wood, Wood-based Panels

Hong Kong imports all of its wood products. The major uses are in construction, furniture manufacturing and interior decoration sectors.

In 1998, during the Asian financial crisis, Hong Kong's construction industry went through a major shake-up. Due to lack of confidence from investors and virtual disappearance of home buyers, property prices have fallen by 50 to 60 percent, compelling developers to reduce project costs by introducing less-expensive materials, including wood products. It is anticipated, however, that the market will begin to regain vigour in 1999 and grow substantially in 2000.

According to Hong Kong Census and Statistics, Hong Kong remained the main conduit for wood

exports entering the markets of Mainland China. In 1998, total imports of wood, value-added wood and wood-based panels to Hong Kong were \$1.68 billion; re-exports to Mainland China were \$1.3 billion. A significant portion of these imports were transhipped to wood-processing plants in Mainland China, for processing into flooring, doors, kitchen cabinets and furniture for re-export to Hong Kong.

Over the years, Hong Kong wood importers and traders have established rapport with key users in the construction and furniture-manufacturing industries in both Hong Kong and Mainland China markets. Most Hong Kong construction firms are active in Mainland China, and a large number of previously Hong Kong-based furniture factories have relocated to the mainland to reduce costs.

Pulp and Paper

While many manufacturers have established production lines on the mainland, Hong Kong imported 3.8 million tonnes of pulp and paper from abroad in 1998. Additionally, procurement decisions regarding paper are still made in Hong Kong for many mainland plants in Southern China. Demand for pulp and paper products is picking up as the region begins to recover from the current economic turmoil.

Market Opportunities

Hong Kong is an open market and does not impose any import tariffs on forestry products. Canadian products can compete with other supplies in a more advantageous position than those in Mainland China.

Wood, Value-added Wood and Wood-based Panels

Canada's exports to Hong Kong in 1998 were as follows:

- ◆ \$6.9 million worth of rough wood, a decrease of 31 percent from 1997;
- ◆ \$19.4 million worth of lumber, a decrease of 17 percent from 1997;
- ◆ \$6.8 million worth of tongue-and-groove wood, a decrease of 63 percent from 1997; and
- ◆ \$1.8 million worth of wood-based panels, a decrease of 53 percent from 1997.

Demand for hardwood lumber remains strong. Maple, beech and oak, either in the raw or semi-processed form, are highly sought after for processing into finished products. There may also be market potential for other native Canadian species, such as birch.

Increasing concerns about environmental issues in the construction industry have led to an increase in the use of softwood lumber. The Hong Kong government and some property developers have specified the use of materials from sustainable resources, such as softwood for formwork. The traditional use of tropical hardwood as boards is discouraged. It has been replaced by either steel or non-wood materials. OSB, which is less known in Hong Kong, may represent new opportunities for Canadian companies.

Particleboard and fibreboard, including medium-density fibreboard (MDF) are used extensively in furniture manufacturing. Although some Canadian MDF has entered the Hong Kong market, the volume has been small. The market is dominated by cheaper Southeast Asian products.

Pulp and Paper

Canada's exports to Hong Kong in 1998 were as follows:

- ◆ \$3.43 million worth of pulp, a decrease of 3.4 percent from 1997;
- ◆ \$64.42 million worth of newsprint, a decrease of 31.8 percent from 1997;
- ◆ \$38.40 million worth of paper and paperboard, a decrease of 23.2 percent from 1997; and
- ◆ \$0.12 million worth of waste paper, a decrease of 38.6 percent from 1997.



In 1998, Canada exported 81 451 tonnes of newsprint to Hong Kong. This represents 20.6 percent of Hong Kong's newsprint imports. By comparison, Canada's share of the Hong Kong market for pulp, paper/paperboard and waste paper was 0.5, 2.12 and 0.65 percent respectively.