



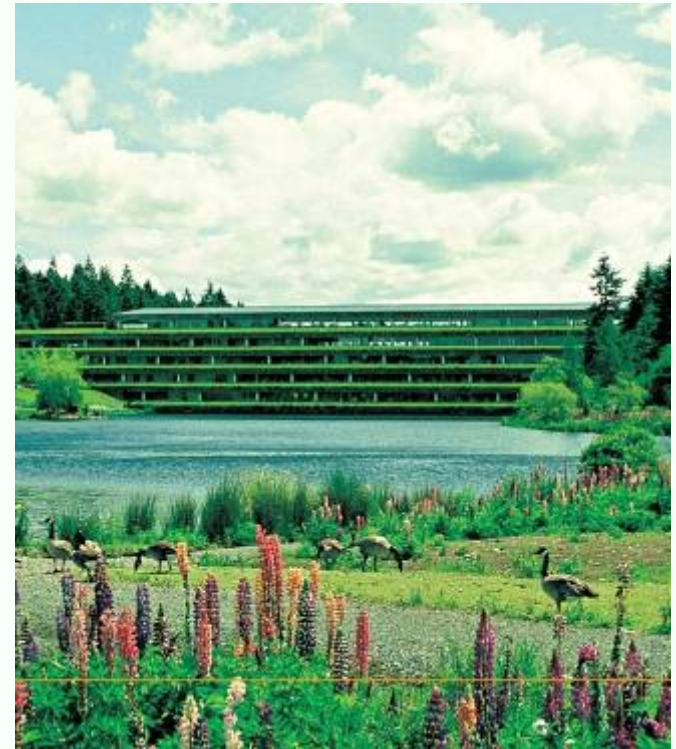
Weyerhaeuser in China

Mike Thompson

Weyerhaeuser Asia

Brief Introduction

- **Founded in 1900**
- **Active in sales to Asia since mid 1920's**
- **Currently 8% of the company's sales are in Asia**



Major Businesses



**Weyerhaeuser
Company**



Timberlands

**Wood
Products**

**Pulp, Paper
&
Packaging**

Real Estate



Sustainable Development



Our products come from certified forests and forestry is practiced with sustainable methods



Weyerhaeuser in China

- One of the first US companies to resume a business relationship with China after normalization of US-China relations in 1972.
- First US forestry company invited by the Chinese government to attend the 1972 China Trade Fair in Canton.



Weyerhaeuser in China

- First Weyerhaeuser liaison office established in China in 1983



- Products supplied to China: Logs, Lumber, Hardwoods, Engineered Lumber, OSB, containerboard & LPB, pulp and wastepaper.
- Of Asian volume in 2005, sales to China were second only to Japan.

China Economy

Major economic indicators

	2004 (1-9, act.)	2005 (1-9, act.)	2005 (Est.)	2006 (Est.)
GDP	+ 9.5%	+ 9.4%	+ 9.2%	+ 8.9%
Imports	+ 38.2%	+ 16%	+ 18%	+ 17%
Exports	+ 35.3%	+ 31%	+ 26%	+ 15%
Fixed Assets Investment	+ 29.9%	+ 26.1%	+ 21%	+ 17.4%
Retail Sales	+ 13%	+ 13%	+ 12.8%	+ 12.5%

Sources: NBS, SDPC, CASS

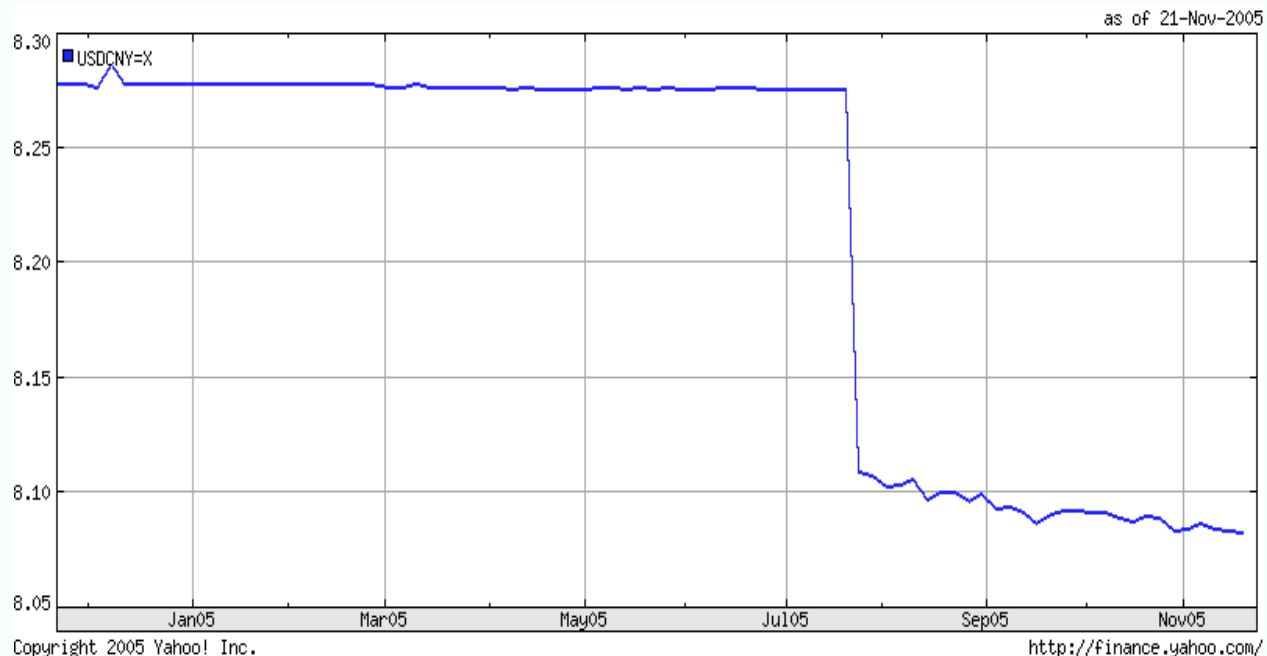
China Economy

- **World's sixth largest economy (\$1.4 trillion)**
- **3rd largest importer of wood products**
- **Over \$60 billion in FDI annually**
- **Gov't goal is to meet domestic demand for wood with domestic supply by 2010**
- **Number of middle class households tripled in the past five years**
- **Urbanization doubled in the past twenty years to 40% and is expected to increase to 60% by 2020**
- **Construction industry represents 16% of China's GDP**

China Economy

Yuan exchange rate

- **Strengthening after the revaluation**
- **Pressure sustaining**
- **More adjustments?**



China Political Issues

The 5th session of the 16th CCP Congress

- **Economic goals of the “11th Five-year Program” (2006 to 2010)**
 - Doubling year 2000 per capita GDP by 2010
 - Reducing energy costs per unit GDP by 20%
 - Extensive revisions on some regulations (VAT, corporate & personal income taxes, etc.)

Political agenda

- **No ground given on permitting greater political/individual freedom**
- **Continue building infrastructure with roads, airports, power plants**
- **Slow improvement with IPR protection**

OPPORTUNITIES

- Housing privatized since 1998
- Private mortgages readily available
- Housing starts are 10-12 million per year
- Construction expenditures projected to increase by 11.2% annually through 2008
- Currently, residential construction expenditure is almost equal to commercial construction expenditure

OPPORTUNITIES

- Energy shortages will continue encouraging energy-efficient building materials (wood)
- Pollution is rampant and also encourages the use of green materials (pollution costs the economy ~10%)
- By 2015 the World Bank predicts half of the world's new building construction will take place in China
- One third of all Chinese will move into a new home within the next decade

CHALLENGES

- **99.9% of housing is concrete, masonry or steel**
 - **Limited code acceptance or product knowledge**
 - **Developer/builder/home owner perception that wood is a non-durable alternative**
- **EXTREMELY price sensitive market**
- **Very strong competition from Russian and SE Asian producers (Russian softwood imports already 2x those of Canada)**
- **Limited supply chain to end users (very little wood-oriented distribution available)**
- **Difficulty in selecting the right partner and time consuming to form a WFOE**

POTENTIAL WAYS TO ENTER THE MARKET

- Pure exporter
- Liaison office (representative office)
- Contract Manufacturing
- Company Branch
- Partnership (JV)
- WFOE (several varieties, including consulting, manufacturing, distribution)

Weyerhaeuser in China

- Appearance wood products
- PPPR products
- Structural wood products



Residential Wood Products China



Lumber

EWP



Total Support



WBP

Building Components



CONCLUSIONS

- China is a challenging market and one in which it is difficult to generate margin
- Don't expect quick results
- The current structural wood product market is embryonic
- Wood products in housing applications are attractive from an energy conservation/environmental standpoint
- The way to profitability appears to be through value-added products
- The opportunity for hybrid construction is good
- With one third of the population moving into new housing within the next decade, the potential long-term opportunity is extremely attractive

Weyerhaeuser in China

