

# Globalisation, internationalisation and export opportunities for South Africa

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## Abstract

*The economic resources of capital, technology, and data as well as the exchange of goods and funds and the agriculture supply sector all become part of the 'border-less world'. The Government and private organisations are arduously demanding factors to stimulate growth in the South African economy through various strategies and comprehend export development as a priority. The Department of Trade and Industry grow the export base and increase exports from South Africa as well as develop an approach to export expansion supported by strategic export promotion in line with global best practice resulting in the Integrated National Export Strategy (INES) or 'Export 2030'.*

*Within the demand for wood, South Africa has the opportunity to increase its wood supply into world markets in the future to various countries and indications are of countries and regions which might be future potential markets with this research main aim towards entering the European Union market.*

*South Africa may enter the EU markets without any tariff barriers because it falls under the Generalised System of Preferences (GSP). However, South African produce still have to meet certain requirements to enter the EU market, for example, the provision of an evidence of origin to EU customs in the form of a Certificate of Origin. There are a number of non-tariff measures (NTMs) for wood products, more complex than tariffs and more difficult to gauge the impact with an even greater trade-restricting effect.*

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## 1. Introduction

South Africa is a productive and industrialised economy and, regardless of the negative GDP through all four quarters of 2018 indicating a recession, still is in the position to compete globally. Agriculture, forestry and fishery contributes 2.5% to the country's GDP albeit forestry in a decline. According to Guttal (2017:523) globalisation is the integration of multi-facets of different organisations internationally. The author elaborates indicating that globalisation is the process of interaction and integration among people, companies, and governments worldwide. Luis (2012) applies the complex and multifaceted phenomenon which entails the integration of local and national economies into a global, unregulated market economy. However, Luis (2012) reiterates that conflicts and diplomacy are extremely important in globalisation.

Throughout the years of trading, strong economic arguments support unrestricted free trade, although governments have been unwilling to individually lower their trade barriers. The problem of a dead-lock reached is overcome if participative countries negotiate a set of rules to govern cross-border trade (Hill & Hurt, 2019:208). To ensure a uniform set of standards and operating procedures within which a nation can function in this global market, a treaty will be formed where all the requirements is known and met.

The wood industry is the production of wood and related services to wood within the economy of South Africa. The wood industry is an economic force in the South African economy. The long-term

growth prospects of the industry are assessed to be excellent and current and potential exports are possible avenues to pursue. According to the World Bank, ([www.worldbank.org](http://www.worldbank.org)) the formal wood industry in Africa alone, employs more than 13.2 million people and produces more than 5,000 types of wood-based products while generating a gross value added of more than \$600 billion each year. However, the wood sector's economic contribution is much larger as the sector is mainly informal and therefore a significant portion of the value unreported. When the informal sector is included in the calculations of the GDP, it could double the contribution of the wood sector and exponentially increase the number of related full-time jobs. Primary wood processing and secondary furniture production are industry branches of strategic importance for generating GDP. The wood fuel industry creates jobs for millions of households in the form of small-scale wood collection, charcoal production, transportation, and retail ([www.worldbank.org](http://www.worldbank.org)).

## 2. Globalisation

"Globalisation is both a result and a force of modernisation and capitalist expansion, entailing the integration of all economic activity (local, national, and regional) into a 'global' market place: that is, a market place that transcends geo-political borders and is not subject to regulation by nation states" according to Guttal (2007:523). The economic resources of capital, technology, and data as well as the exchange of goods and funds and the agriculture supply sector all become part of the 'border-less world' according to Carson and Robinson (2015). The global dimensions gave rise to a uniform experience of global brands consumed through the interconnectedness in terms of products and services although eliminating the domestic selling, locally manufactured goods (Carson & Robinson, 2015). The falling of the barriers to cross-border trade and therefore the merging of historically distinct and separate markets into a huge marketplace is known as the globalisation of markets (Hill and Hult, 2019:6).

The sourcing of goods and services from around the world, or the globalisation of production, is mainly done to take advantage of the national differences in the cost and quality of the factors of productions (Hill & Hult, 2019:8). Carson and Robinson (2015) further elaborate on this global consumerism as it focusses on 'cultural images, symbols and signs' of which agriculture uses labels such as 'fresh', 'green' and 'organic'. Geringer, McNett, Minor and Ball (2016:17) state important arguments supporting globalisation. The first advantage is that free trade enhances socioeconomic development as data has shown a clear and definitive link between the "liberalisation of trade and economic growth". The second benefit of the expanding trade is linked to more and better job opportunities. Changes in technology may result in the loss of work opportunities, but with globalisation new jobs may become available (Geringer, McNett, Minor & Ball, 2016:18). Asongu (2017) also ornate on the advantages of globalisation, specifically in Africa, as globalisation promote good governance. Asongu (2017), through his findings, established that:

- institutional reforms in Africa have been driven by globalisation;
- globalisation reduces corruption;
- trade openness improves the quality of institutions.

Many fundamentally oppose the globalisation process and outcomes on ideological grounds but three primary concerns have crystallised over the years:

- globalisation has produced uneven results across nations and people;
- globalisation had deleterious effects on labour and labour standards;
- globalisation contributed to a decline in environmental and health conditions (Geringer, McNett, Minor & Ball, 2016:19).

### 2.1. Drivers of globalisation

The primary factors driving globalisation of business markets as identified by Cavusgil, et al. (2014:68) are:

- The worldwide reduction of barriers to trade and investment;
- Market liberalisation and adoption of free markets;
- Industrialisation, economic development and modernisation;
- Integration of financial markets;
- Advances in technology.

Apprehending the opportunities offered by these drivers in markets, will require strategic organisational changes as well as managing the risks in geopolitical and volatile environments. Although these drivers are indicative of globalisation, Omilola and Akanbi (2014) suggested it may be a slow growth and market saturation in traditional high-income countries resulting in the attractive potential of emerging markets economically benefit from these drivers. South Africa's importance as an emerging economy is leaning more towards international markets through the unique trend of marketplace globalisation.

In exploring the relationships that exist between financial development, globalisation and level of inequality, Omilola and Akanbi (2014) found South Africa has high-income inequality as well as other social dimensions of inequality such as access to education and land ownership, resulting in structural constraints to economic growth and development. The "globalization processes have largely been responsible for the increasing income inequality in the developing world" (Omilola & Akanbi 2014), therefore will have a negative impact on both economic and social inequalities, although marginally.

Dio (2012), identified culture as a unique driver of globalisation. Dio (2012) elaborate by stating that cultures are not static and may change or disappear over time, but still show thousand-year cultural patterns such as the Chinese. Increased incomes and the emergence of a new middle class can be associated with a higher demand for imported products, perceived as safe and of high quality (Dio, 2012).

Carlos Oya (2011) did a survey on contract-farming in Sub-Saharan Africa on Contract Farming (CF). This seems to be a growing phenomenon worldwide where the production and marketing of agricultural commodities in developing countries are delivered to the global market. According to Oya (2011), the 'contract farming activities are covering over 110 developing and transition economies, with a wide range of commodities and a big share of output. Through this study Oya (2011) indicated the linkages "between (private) agribusiness, specific global value chains and agricultural producers in Africa". Oya (2011) concludes that market requirements, global tendencies and political stability in Africa the major global drivers are.

The world population grew during the second half of the 20th century more than it had in the preceding four million years with the global economy expanding even faster than the population (Dauvergne, 2010). It is anticipated that the global middle class will triple by 2030, resulting in a group able to afford items such as cars and home appliances. By 2050 the world population is set to exceed 9 billion, with over 95 % of the people in developing countries such as Indonesia, India and China (Dauvergne, 2010). The growing consumer demand is seen as a global driver. But, as Dauvergne (2010) stated, "changing the environmental choices of enough consumers fast enough to make a global difference is very hard." Yet, the world market, or global consumer is growing.

Therefore, the economic globalisation will be driven by new technologies, more environmentally friendly markets where fewer trade barriers exist to reach consumers faster more efficient and even globalise their culture.

### 3. Internationalisation

Cavusgil, et al (2014:38) defines internationalisation as "the tendency of companies to systematically increase the international dimension of their business activities". The international business is the international trade, international investment or foreign direct investment. The trade will include both products and services exchanged either through importing or exporting to or from customers from South Africa or a foreign country also known as inbound and outbound activity. International investment refers to organisations securing ownership of assets situated in a foreign country. Foreign Direct Investment is a long-term decision as the investment will transfer the ownership of an organisation abroad. This is typically manufacturing, service or agriculture activities (Cavusgil, et al, 2014:40). Nowak (2018) elaborates on internationalisation by referring to the liberalisation that takes place in the process of removing officially imposed restrictions on movements of resources between countries. Further to this is the process of diffusing numerous products and new experiences to people at all parts of earth, also known as universalisation. Nowak (2018) added a specific type of universalisation, Westernisation, where the social structures of Western civilisations are spread universally.

### 3.1. Internationalisation in South Africa

South Africa participates in regional initiatives such as the Tripartite Free Trade Area (TFTA), and the Continental Free Trade Area (CFTA) process under the African Union's Agenda 2063 and is a member of SADC and SACU blocks in Southern Africa (African Development Bank, 2018). South Africa also participates in bilateral agreements such as the African Growth and Opportunity Act (AGOA), and the European Union/SADC Economic Partnership Agreement, where South Africa, Botswana, Lesotho, Namibia, Mozambique and Swaziland, agreed with the European Union (EU) on the 15th July 2014. There are further existing trade agreements such as the European Free Trade Area/SACU (Botswana, Lesotho, Namibia, South Africa and Swaziland) (May 2008) and EU-South Africa (January 2000). ([www.afdb.org](http://www.afdb.org))

According to the EU/SACU agreement, the five countries deposit their customs and excise collections into one revenue pool. Botswana, Lesotho, Namibia and Swaziland get a significant share of their revenue from the customs which are depended on the business cycles in SACU's major trading partners, and on the performance of the South African economy. The fiscal outturns in these countries, with the exception of Botswana, therefore, largely reflect the path of the South African economy. ([www.afdb.org](http://www.afdb.org)).

As part of the South African economy's pursuit to promote economic growth, regional integration is important. The widely acknowledged agreement that high level of regional integration also causes improvement in economic growth, was proven correct by the African Development Bank ([www.afdb.org](http://www.afdb.org)). "When using the number of export partners as a measure of regional integration it was found that causation runs from regional integration to growth and not the other way around, implying that (higher) regional integration is strong predictor of (higher) GDP per capita".

The main trade corridors in South Africa are: the Cape Town- Gauteng and Durban-Gauteng corridors, the main ports therefore connected to the economic heart of the country, Gauteng province, and part of the North-South corridor, which is a multimodal (road, rail and ports) transcontinental interconnector linking South Africa, Botswana, Mozambique, Zambia, Zimbabwe, Tanzania and Malawi and finally connecting Cape Town to Cairo. Durban has been identified as the busiest port in South Africa and also as the 3rd busiest container port in the Southern Hemisphere. ([www.afdb.org](http://www.afdb.org)).

Because of the importance it plays, the regional market offers an important platform for the internationalisation of South African brands. This include a number of companies identified as major investors in varied sectors such as: natural resources extraction, basic industries and utilities, manufacturing, retails and other services. ([www.afdb.org](http://www.afdb.org))

However, the African Development Bank ([www.afdb.org](http://www.afdb.org)) identifies challenges South Africa faces that constrain its potential to fully utilise the opportunities from regional integration, the hard and soft constraints.

The *hard constraints* relate to the infrastructure deficits which include rail, roads and port developments, energy generation and transmission and development of shared watercourses for the benefit of the regional member countries. ([www.afdb.org](http://www.afdb.org)).

The *soft constraints* include prevalence of non-tariff barriers and trade facilitation bottlenecks, such as lengthy border procedures at key regional transit points (for example Beit Bridge where it takes an average of 4 days for trucks to cross the border). ([www.afdb.org](http://www.afdb.org))

South Africa is reasonably thriving integrated in the regional and global value chains ([www.afdb.org](http://www.afdb.org)) where: 34% of total exports constituting intermediate goods, 26% raw materials, 24% consumer goods and 15% capital goods are exported. According to the World Economic Forum's (WEF) Global Competitiveness Index (2018) ([www.wef.com](http://www.wef.com)), South Africa performs well ranking 47th (out of 138 countries) in the 2016/17 WEF Global Competitiveness Index, slightly better than 49th and 56th in the previous years. The best indicators are 'Financial market development' and 'Market size', while performance in terms of 'Infrastructure', 'Innovation', and 'Labour market efficiency' is not as favourable according to WEF. A favourable indication is that South Africa's internationalisation has improved although the "local competitiveness remains limited as the economy remains fairly concentrated, with anti-competitive behaviour widespread in key sectors of the economy and significant.

#### 4. Export South Africa

Cavusgil, (2014:393) define exporting as: “the entry strategy responsible for the massive inflow and outflows that constitute global trade”. This strategy results in the exporter being able to both enter and withdraw from markets fairly easy with minimum risk and expenses. The volume of world exports grown enormously, to such an extent that various industries depend on international trade, (Cavusgil, 2014:393) and the overall export from South Africa shows an annual rate of change of 4,5% in December 2018. From November 2018 to December 2018 exported commodities decreased by 0,3% ([www.statssa.co.za](http://www.statssa.co.za)).

Organisations will consider exporting due to opportunities that may exist as well possible profit growth and ROI for investors. Akinwale and Grobler (2019) indicate that the South African economy supports the export led growth strategy adopted by the government. Improvement in trade openness from export is one of the most important ingredients to economic growth in emerging countries such as South Africa. Further to this, Akinwale and Grobler (2019) argue that an increase in real income, *ceteris paribus*, leads to increase in government spending and export-oriented items. Economic growth results in a higher proportion of national income spent on improving the manufacturing base of export related products. Akinwale and Grobler (2019) concluded that trade openness from export are vital and not negotiable to bring about strengthening local capabilities which positively affects economic growth and development.

Government and private organisations are arduously demanding factors to stimulate growth in the South African economy through various strategies and comprehend export development as a priority ([www.dti.gov](http://www.dti.gov)).

##### 4.1. Integrated National Export Strategy

The Department of Trade and Industry mandated Trade and Investment South Africa (TISA) to grow the export base and increase exports from South Africa ([www.thedti.gov.za](http://www.thedti.gov.za)). TISA develop an approach to export expansion supported by strategic export promotion in line with global best practice resulting in the Integrated National Export Strategy (INES) or ‘Export 2030’ ([www.dti.gov](http://www.dti.gov)).

According to INES, the most important areas of concern are the creation of an enabling environment with easy entry to new markets and the development of new products for export. It should be possible for existing, potential, aspiring, and even past exporters to export.

The INES focusses on two broad focus areas:

1. The business focus that inter alia includes:

- Ensuring the long-term international competitiveness of local industry (manufacturing, agriculture and services);
- Developing new export capabilities and competencies; and

2. The socio-economic development focus. ([www.dti.gov](http://www.dti.gov))

##### 4.1.1. Improving Export Infrastructure and reducing trade-related costs

INES identified the development of infrastructure to support increased exports an essential element of economic development plans (medium- to long-term) of countries and used as reference countries such as the Philippines and Uganda, as well as Jamaica and Malaysia. ([www.dti.gov](http://www.dti.gov)) Even though South Africa do have an extensive road, railway and ports network, the importance of further improvements in infrastructure and addressing infrastructure backlogs, is drastically needed. The National Development Plan, the New Growth Path and the Industrial Policy Action Plan outline several initiatives that are required to improve the export infrastructure ([www.dti.gov](http://www.dti.gov)).

The need to improve the effectiveness of ports and port infrastructure, lower port tariffs, and improve the borders with other African countries prove to be one of the big concerns. A Global Pricing Comparator Study, highlights total port costs in South Africa (including terminal handling charges) for container owners at 190% above the global average in 2014/15 ([www.dti.gov](http://www.dti.gov)). The Department of Trade and Industry is collaborating with the South African Revenue Service (SARS) to improve the turnaround time at ports of exit. The emphasis is placed on the completion of documentation and compliance being undertaken ‘pre-border’. ([www.dti.gov](http://www.dti.gov))

INES is currently focused on the Tripartite Free Trade Area including Southern African Development Countries (SADC), Common Market for Eastern and Southern Africa (COMESA) and

Eastern African Countries. (EAC) ([www.gcis.gov](http://www.gcis.gov)) The agreement addresses the trans-border infrastructure linking these African countries and improving the border post blockages between them.

#### **4.1.2 Strengthening the Linkages between Exports and Foreign Investment**

As in any other country, Foreign Direct investment (FDI) play an important role in South Africa's exports. One advantage is that FDI create an improved domestic environment that will enable companies to better compete in global markets, this will include:

- Access to efficient service providers.
- Access to credit and other financing for local exporters.
- Access to global supply chains.
- Access to technology and know-how.
- Outward FDI as alternative sources of supply ([www.ines.co.za](http://www.ines.co.za))

#### **4.2. Increasing demand for South African goods and services**

The financial crisis of 2008 resulted in world exports contracting by a significant 23% in 2009. This was followed by a pronounced recovery of 22% in 2010. This recovery was sustained in 2011 with growth in world exports of almost 19%. World trade however slowed during 2014. Developing economies exports, including South Africa's, followed this post financial crisis pattern, although with a consistently better performance than exports from developed economies, South Africa's annual rate of change in export for December 2018 was an increase of 4.5% ([www.statssa.co.za](http://www.statssa.co.za)).

INES prioritise high growth emerging markets, especially those in Africa, Asia, BRICS, Latin America and the Middle East. Export promotion mechanisms such as National Pavilions, Trade Missions, Investment and Trade Initiatives, and unconventional interventions are used as levers to create visibility and market access for South African exporters. The aims are to provide the right exposure to South Africa's exporters and for South Africa's products by increasing the visibility of South Africa as a supplier of choice. ([www.dti.gov](http://www.dti.gov)).

#### **4.3. Exporting wood products from South Africa**

Although there are many suitable and cost-competitive substitutes for wood, made for example from fossil fuels, becoming increasing more available, woods major advantage is still the fact that it is environmentally friendly. However, significant forecast felling aids environmental degeneration by contributing to the increase in atmospheric emissions of carbon dioxide ([www.fao.org](http://www.fao.org)). The World Forestry Organisation predicts that timber consumption and demand will increase in the West over the short term ([www.fao.org](http://www.fao.org)). This, together with the growth in the developing world, and an expected increase in energy generation from biomass, will increase global timber consumption to levels not experienced before. ([www.fao.org](http://www.fao.org)).

A European Commission investigating South Africa Forestry, (European Commission Report: October 2013) found that South Africa has been able to create a well-developed and competitive wood industry, linked to a well-managed estate of tree plantations, the largest in Africa. According to Vukmirović, Petrović and Kostić-Stanković (2017), the dynamics of the wood industry development is not homogenous due to the significant differences regarding the level of technological development, implementation of innovation, investment into development and research activities, as well as the application of knowledge and internationalisation. This information can lead to a conclusion that domestic wood industry enterprises should focus on producing products with high added value rather than on export of raw materials (Vukmirović, Petrović & Kostić-Stanković, 2017).

An efficient and competitive forest-based industry can only develop successfully as long as there is a strong link between the industry's production system and a reliable and sustainable raw material base (European Commission Report, 2013). This is achieved through a set of activities in the timber industry performed in order to deliver a valuable product to the market. Within the primary sector the wood products industry consists of companies engaged in operating timber, sawmills, seeding, reforestation and harvesting timber ([www.sadctrade.org](http://www.sadctrade.org)). The industry also includes related services, such as cutting, logging, transporting, estimating and other forest management services. There are 147 processing plants

currently operating of which one is exclusively for the production of matches and two for Veneer products ([www.forestry.co.za](http://www.forestry.co.za)).

Therefore, possibilities of exporting wood and wood products from South Africa will increase and important aspects to deliberate when considering exporting will be: South Africa's GDP growth is expected to continue at close to two percent in 2019 and 2020. ([www.worldbank.com](http://www.worldbank.com))

Pulpwood from the harder pulpwood species (hardwood) is expected to increase slightly as the capacities of the chipping plants allow. This will result in a higher supply and export opportunities. The demand for pulp wood from the softer species is expected to decrease. The price will be driven by the South African inflation rate and the R/\$ exchange rate. ([www.fao.org](http://www.fao.org)).

Mining timber is expected to decrease in line with the decrease in demand from mines. The export opportunities will also decline in line with the world trend. Price increases are expected to be marginal if at all. ([www.fao.org](http://www.fao.org)).

The possibilities of production for treated poles is expected to remain at current levels with the main opportunities on the export market. Price increases are expected to be in line with the national inflation rate. ([www.fao.co.za](http://www.fao.co.za))

The prime overdraft rate is expected to remain at 10% in 2019, to increase to 10.25% towards the end of 2019 and to further increase to 10.5% in 2020. ([www.resbank.co.za](http://www.resbank.co.za))

The R/\$ exchange rate is at R14.45 (April 2019) and is expected to trade between R14.50 and R14.80 in the short term. The forecast for 2019 is an average of R14.80 and for 2020 it could be at R15.39. ([www.resbank.co.za](http://www.resbank.co.za))

The inflation rate is likely to increase from the current 4.4% to 5.4% in 2020. ([www.resbank.co.za](http://www.resbank.co.za))

Sawmilling companies that are vertically integrated where the timber plantations are owned or managed, are in a better position to expand and develop their sawmilling operations.

## 5. Export opportunities to the rest of the world from South Africa

During 2015 the global lumber currency-driven price decreased drastically but both market demand and prices improved in 2016 with a very small improvement in 2017. Although the overall global demand improved in 2017, the supply disruptions and changing dynamics in the market created an unpredictable market. ([www.fao.co.za](http://www.fao.co.za)). All markets appeared to be stable in 2017, this included the U.S., Canada, most of Europe, Japan, China and much of Asia. Only one market region remained unsettled, the Middle East/North Africa (MENA), Egypt and Algeria, specifically, along with some areas of the Middle East. Although the US had a growth market in 2017, supply dislocations such as forest fires and hurricanes, resulted in surging prices throughout the year. ([www.usaf.com](http://www.usaf.com)). With a total amount of R28.9 bn exported as pulp, paper and solid wood and other products, the South African industry is largely exposed to the international markets and trends ([www.forestry.co.za](http://www.forestry.co.za))

South Africa is officially in recession after being in a downward spiral for more than ten years. Sawmilling is driven primarily by the construction industry, where, if the construction sector slows down, the sawmilling industry follows. However, according to Forestry SA this is not the only challenge faced by the wood industry. The land area planted under sawlog organisations is more or less finite with no significant expansion possible in South Africa under current regulations and political situation. This hinders the supply and therefore the entering or growing of markets in foreign countries. ([www.forestry.co.za](http://www.forestry.co.za)) This expected increase in demand for timber on the world market will coincide with long term forecasts of decreasing supply levels which will definitely have an effect on global timber prices, which in turn will be to the benefit of timber farmers. ([www.forestry.co.za](http://www.forestry.co.za))

### 5.1. Supply and demand

The South Africa Forestry reported on the Global Forestry Index 2018: ([www.forestry.co.za](http://www.forestry.co.za))

#### Global Timber Markets

In early 2018, the Global Sawlog Price Index (GSPI) reached \$80.73/m<sup>3</sup>, its highest level since 2014. Sawlog prices generally increased in local currencies during 2018, but with a stronger US dollar, the dollar denominated GSPI index fell by about five percent during the year. Mixed price movements in Europe resulted in fairly small changes in the European Sawlog Price Index (ESPI-€). In the fourth quarter of 2018,

the index was up 1.8% quarter on quarter, but was practically unchanged from the fourth quarter in 2017. (www.forestry.co.za)

### **Global Pulpwood Prices**

Prices for softwood pulp logs and softwood chips rose in most markets worldwide in the fourth quarter of 2018. The biggest increases occurred in Chile, Brazil, New Zealand and Australia, while prices fell the most in France, Japan and Germany.

World Resources Institutes's Softwood Fiber Price Index (SFPI) moved up by 0.5% from the third quarter in 2018 to the fourth quarter in 2018. The Hardwood Fiber Price Index (HFPI) increased 1.9% quarter on quarter in the fourth quarter of 2018, driven mainly by higher costs for hardwood pulp logs in the US South, Brazil and Indonesia. Hardwood fiber prices fell in Europe in both the local currencies and in US dollars. (www.forestry.co.za)

### **Global Pulp Markets**

NBSK (Northern Bleached Softwood Kraft is the paper industry's benchmark grade of pulp) and HBKP (Hardwood Bleached Kraft Paper) prices fell in all major regions in the fourth quarter of 2018 and early 2019. The biggest price declines were in pulp destined for China.

The NBSK price in Europe has fallen from a record high of \$1300/ton in October last year to \$1180/ton in early 2019. (www.forestry.co.za)

### **Global Lumber Markets**

In 2018, global trade of lumber fell for the first time in five years, with total trade down seven percent year on year to an estimated 115 million m3.

US lumber prices have gone through a historical roller-coaster ride over the past 12 months. Average prices for pine in the US South were at about \$420/m3 in January 2018, peaked at \$554/m3 in June and fell to \$372/m3 in early 2019.

Softwood lumber exports from Canada were down 5% year on year in 2018, with the biggest decline being in shipments to China.

Sawmills in the Nordic countries had a very good second half of 2018, with lumber prices in the local currencies in the second half reaching their highest levels since 2007.

Lumber imports to China fell for two consecutive quarters to reach 5.9 million m3 in the fourth quarter of 2018.

Russia's share of total imports to China has moved up from 55% in the fourth quarter of 2017 to 63% in the fourth quarter of 2018 as the sawmilling sectors in Siberia and the Far East continue to expand and deliver competitively priced lumber.

Despite substantial declines in the gross margins for sawmills in the US South, profits were still above the ten-year average in the fourth quarter of 2018. (www.forestry.co.za).

### **Global Biomass Markets**

Global trade of wood pellets jumped almost 18% year on year in 2018 when a new record of over 20 million tons was shipped.

Pellet prices in Austria and Germany reached their highest prices in five years in the first quarter of 2019. (www.forestry.co.za)

The traditional analysis of wood supply and demand centred on wood removals from forests and wood input to industries is inadequate. This was already determined more than a decade ago suggesting a more complex approach, based on comprehensive wood resource balances, requiring original research and data gathering, is necessary: (www.uncece.org). Taking this in consideration with the figures made available from the GFI, wood supply needs to be increased to successfully participate in the export market.

In order to increase wood supply:

Wood supply from new sources should be expanded, expansion of the area used to grow wood

Wood supply from existing sources (forest and non-forest) should be expanded, e.g. through higher wood removals

Energy efficiency will have to be radically improved



Improvements in the efficiency of use of wood flows ([www.unece.org](http://www.unece.org)).

## 6. Export opportunities to Europe

Within the forecast demand for wood, South Africa has the opportunity to increase its wood supply into world markets in the future. However, as previously mentioned, the main suppliers of wood in the future will be the Northern Hemisphere countries, followed by Asia and South America. Notwithstanding is South Africa exporting to various countries and indications are of countries and regions which might be future potential markets. As the research main aim is towards entering the European Union market, most reference is towards the EU.

As anticipated, the market for newsprint paper shows a consistent decline since 2011, the major market for newsprint paper 33 tons (in rolls of sheets) exports from South Africa to Europe was European Union, with no competition from other European regions in 2015. A peak was attained in 2009 at an export quantity of approximately 425 tons. The major market, in the EU, for newsprint paper (in rolls of sheets) exports from South Africa to Europe was United Kingdom followed by France and then Belgium. However, this changed totally, and only Belgium is still a major newsprint paper importer from South Africa, 17 tons per year. ([www.nda.agric.za](http://www.nda.agric.za))

Fuel wood (saw dust) exports in logs from South Africa to Europe was the European Union, followed by very low or intermittent levels of exports to Southern Europe. The exports of fuel wood (saw dust) in logs from South Africa to the European Union in export volumes is approximately 56 000 tons. ([www.nda.agric.za](http://www.nda.agric.za)) Hoop wood (split poles) exports from South Africa to Europe used to be at a high of 2 739 tons per year in 2009 but since declined to only approximately 25 tons per year in 2015. The major export market for wood charcoal from South Africa to Europe was the European Union, followed by very low export volumes of wood charcoal to Western Europe. However, since 2010 there were no exports of wood charcoal to the European Union. There are no export volumes of wood in the rough (treated with paint) from South Africa to Europe. ([www.nda.agric.za](http://www.nda.agric.za)).

### 6.1. Trade Agreements and restrictions

South Africa may enter the EU markets without any tariff barriers because it falls under the Generalised System of Preferences (GSP), a programme designed to promote economic growth in the developing world by providing preferential, duty-free entry for products are part of the African Caribbean and Pacific (ACP) countries. However, South African produce still have to meet certain requirements to enter the EU market, for example, they have to provide evidence of origin to EU customs in the form of a Certificate of Origin and the wood or articles therefore must be transported directly to the EU from the country of origin. ([www.thedti.gov.za](http://www.thedti.gov.za))

#### 6.1.1. Non-Tariff Measures

There are several non-tariff measures (NTMs) for wood products. These measures are often less visible than tariffs and include quantitative restrictions, such as:

- \* import quotas,
- \* plant health (sanitary and phytosanitary) standards,
- \* export restrictions and sometimes
- \* customs procedures and
- \* technical standards
- \* cumbersome import licensing,
- \* domestic policies.

The NTMs are also more complex than tariffs and it can be harder to gauge their impact and are thought to have a greater trade-restricting effect than tariffs. ([www.stdfb.wto.org](http://www.stdfb.wto.org)) One of these measure is the use of import quotas for forest products is declining, resulting in difficulties. However, the use of export restrictions, particularly on logs, has been increasing, and had a major impact on trade in forest products. ([www.wto.org](http://www.wto.org))

When complying with import licensing and customs procedures, it adds costs to foreign suppliers, something domestic producers do not endure. Certain domestic policies, including subsidies and tax concessions, affect the competitiveness of foreign producers further by reducing domestic producers' costs. ([www.trade-info.cec.eu](http://www.trade-info.cec.eu))

As far as wood products are concerned, safety regulations usually revolve around strength characteristics and suitability for use in construction. This will be more applicable with logs and sawn wood than higher value-added processed wood products, which are not often used for structural

purposes. The same is applicable for health and phytosanitary standards. Value-added products containing dried timber reduce phytosanitary risks. The EU could regard health and phytosanitary regulations more important for trade in non-wood forest products (NWFPs), since these are often used in food and environmental contexts. There may be, for example, restrictions on wood-based panels containing formaldehyde glue, controls designed to discourage companies from using chlorine to bleach pulp, and regulations regarding the recycling and recovery of wastepaper and packaging. ([www.trade-info.cec.eu](http://www.trade-info.cec.eu))

Two agreements from the World Trade Organisation (WTO) were part of the Uruguay Round that may lead to a reduction of the impact of NTMs. The Agreement on Technical Barriers to Trade (TBT) limits the use of technical regulations to legitimate safety, health and environmental protection purposes, while the Agreement on the Application of Sanitary and Phytosanitary Measures may improve quarantine and inspection conditions. ([www.wto.org](http://www.wto.org))

Most trade restrictions are motivated by concerns about the environment. This is even more so in the forestry sector where bans and boycotts are aimed at encouraging sustainable forest management. The NTMs include bans on the use of timber from forests which are not sustainably managed and have been imposed by local authorities as well as retailers and traders. However, the main target is the tropical timber, due to concerns about tropical deforestation. The certification of forest products, to assure consumers are that the wood in the products are from a sustainably managed source, is one way of abiding to these NTMs. The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) uses degrees of trade restrictions to regulate trade in endangered species. ([www.stdfdb.wto.org](http://www.stdfdb.wto.org))

“Anti-dumping” measures have recently been used by countries such as the US as a barrier to defend their local wood products industry, which came under pressure from cheap imports from, for example, China. ([www.wto.org](http://www.wto.org))

## 7. Conclusion

The world has become a ‘border-less’ society where the sourcing of goods and services is done according to competitive advantage. There are various advantages for and against globalisation resulting in the instituting of the World Trade Organisation, International Monetary Fund, the World Bank, United Nations and the G20 to help manage and regulate the global marketplace. The ‘World Globalization Report’ is released on a regular basis indicating according the KOF index, the world’s most important economies benefitting the most from globalisation. South Africa is currently 34<sup>th</sup> on the list of 42 countries.

Organisation will consider foreign trading partners if there is a possibility and it will benefit the profitability and return on investment. South Africa increased their international footprint remarkably after various trade agreements for venturing abroad after adoption of a distinctive strategy to minimize cost and optimise local responsiveness. To systematically approach and assess potential foreign markets, organising the business, acquiring the necessary skills and finally implement the operation is exporting. The Department of Trade and Industry is assisting the business environment in exporting strategies, infrastructure and even trade-related costs.

Import opportunities for wood products to Europe proved to be very opportune. The wood market in many of the European countries existed up to 2011, even peaked in 2009, but since then deteriorated to non-existing in 2017. Trade agreements also prove to be favourable towards South Africa opening new possibilities for the hard wood industry.

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