HQ 142

REPORT ON
MTC MARKET RESEARCH VISIT TO THAILAND & CAMBODIA

(14 – 19 NOVEMBER 2016)

MALAYSIAN TIMBER COUNCIL

T A B L E   O F   C O N T E N T S

EXECUTIVE SUMMARY

- In Thailand , there are opportunities for plywood manufacturers in Malaysia to supply:
    - Thin plywood, i.e., 3mm – 6mm
    - Thick panels (8mm, 15mm & 8mm MR BB/CC)
    - Good quality film-faced plywood
- There is a monopoly of plywood in the domestic market in Cambodia. Low quality plywood is also sourced from neighbouring countries such as Vietnam and China.
- As for MDF and particleboard, in Thailand production capacity is more than double domestic consumption and in Cambodia the market is supplied by overland imports from Thailand and Vietnam. Unfortunately this situation is not conducive for the import of MDF and particleboard from Malaysia.
- Current domestic consumption and installed capacity of panel products in Thailand:

Products	Volume (m^3)/year	
	Domestic consumption	Installed capacity
MDF	1,188,000	2,970,000
Particleboard	1,129,500	3,765,000
Plywood/Veneer	994,500	1,170,000
OSB/Hard board/Other related panels	114,400	572,000

Source: Thai Panel Products Industry Club

- Nevertheless, the fall in the Malaysian Ringgit could boost exports to Thailand and Cambodia.

1. INTRODUCTION

- The Malaysian Panel-Products Manufacturers' Association (MPMA) undertook a Market Research Visit to Thailand and Cambodia from 14 – 19 November 2016 assisted by the Malaysian Timber Council (MTC).

- The objectives of the Market Research Visit (MRV) are:

    - To identify buyers of Malaysian panel products (Plywood, MDF, Particleboard and OSB);
    - To explore areas of opportunities for Malaysian exporters/suppliers and;
    - To study the distribution channels & consumers' buying pattern/behaviour.

- A total of seven delegates participated in the Market Research Visit:

i)	Y Bhg Datuk Chua Hock Gee	MPMA – Head of delegation
ii)	Y Bhg Datuk Wira Sheikh Othman	MPMA
iii)	Mr Cheong Hok An	MPMA
iv)	Mr Peter Fitch	MPMA
v)	Mr Lai Yin Tjun	MPMA
vi)	Mr Tan Chong Yin	MPMA – Secretariat
vii)	Ms Adeline Goh	MTC – Secretariat

- Apart from the Task Force members above, the following MPMA members also participated in the MRV:

    i) Mr Alvin Yii
    ii) Mr K L Ho
    iii) Mr Thong Chee Hong
    iv) Mr Eric Kang

- The activities carried out during the visit were as follows:

Organisation/Company	Country
1. Meeting with the Thai Timber Association (TTA)	Thailand
2. Factory visit to PSP Furniture & Design Co Ltd	Thailand
3. Factory visit to Vanachai Group Public Co Ltd	Thailand
4. Visit to Bangpho Wood Street	Thailand
5. Meeting with the Ambassador of Malaysia	Thailand & Cambodia
6. Meeting with MATRADE	Thailand & Cambodia
7. Meeting with the Cambodia Timber Industry Association (CTIA)	Cambodia
8. Factory visit to Angkor Plywood Co Ltd	Cambodia

- Please refer to **Appendices I and II** for contacts details of organisations/companies met and photographs of activities carried out in Thailand and Cambodia.

2. THAILAND

2.1 Major Economic Indicators

	2014	2015	2016*
Population (million)	68.7	68.8*	69.0
GDP at current prices (US$ billion)	404.3	395.3*	409.7
GDP per capita (US$)	5,889	5,742*	5,940
Real GDP growth (%)	0.8	2.8*	3.0
Inflation (%)	1.9	-0.9	0.2
Unemployment rate (%)	0.8	0.9	0.8
Exports (US$ billion)	224.8	212.1	197.5
Export (% change)	-0.3	-5.6	-6.9
Imports (US$ billion)	200.2	177.5	172.3
Import (% change)	-8.5	-11.3	-2.9
Exchange rate (THB:USD)	32.96	36.09	35.33

Sources: Bank of Thailand, IMF, EIU
* Estimates by IMF, EIU

2.2 Current Economic Situation

- The Thai economy expanded by 3.5% year-on-year in Q2 2016, surpassing the 3.2% increase in the previous quarter, primarily due to strong growth of public investment and private consumption.

- Thailand is the second largest economy in the 10-nation ASEAN, following Indonesia. Service is the largest sector of the economy with a GDP share of 52%, followed by 38% in industry, with agriculture constituting 10% of GDP. Major sectors include electronics, car making, transport, storage, communication, finance and real estate.

2.3 Trade Performance between Malaysia and Thailand

- In 2015, Thailand was ranked as Malaysia's:
  - 5th largest trading partner;
  - 5th export destination;
  - 5th source of import and;
  - 2nd top trading partner among ASEAN countries.

- As for Malaysia's trade with Thailand, total trade grew 2.1% amounting to RM56.1 billion for the period January to August 2016. Trade balance between Malaysia and Thailand has been on Malaysia's favour for the few past years.

2.4 The Panel Industry in Thailand

- The Thai Panel Products Industry Club (TPPIC) was formed to serve as a focal point for coordinating public-private sector policies and activities as well as to promote the exchange of ideas, relationship and cooperation.

- The main objectives of the Club include:

  - Promoting research and transfer of technical knowledge to increase the competitiveness for the domestic industries.
  - Cooperating with government agencies, distributors and consumers.
  - Organising activities to bring together local production facilities and expand membership.
  - Encouraging compliance with international standards.
  - Assisting members in improving production capabilities.
  - Seeking new markets, thereby increasing industry competitiveness in the global market.

- To date, TPPIC has 38 members which manufacture panel products such as particleboard, MDF, hard board, plywood, OSB, cement board, and other related panel products.

- Current domestic consumption and installed capacity of panel products in Thailand:

Products	**Volume (m³)/year**	
	Domestic consumption	**Installed capacity**
MDF	1,188,000	2,970,000
Particleboard	1,129,500	3,765,000
Plywood/Veneer	994,500	1,170,000
OSB/Hard board/Other related panels	114,400	572,000

Source: Thai Panel Products Industry Club

3. CAMBODIA

3.1 Major Economic Indicators

	2014	2015	2016*
Population (million)	15.3*	15.5*	15.8
GDP (US$ billion)	16.8*	18.4	19.5
Real GDP growth (%)	7.1*	6.9	7.0
GDP per capita (US$)	1,096*	1,168*	1,235
Inflation rate (%)	3.9	1.2*	2.1
Exchange rate (per US$, end-period)	4,075	4,058*	3,989
Exports (US$ million)	7,445	8,244*	8,709
Imports (US$ million)	10,669	11,516*	12,426
Export growth (%)	14.0	10.7*	5.6
Import growth (%)	12.4	7.9*	7.9

Source: IMF, EIU
* IMF and EIU estimates

3.2 Current Economic Situation

- After a robust expansion with annual GDP growth averaged 7.5% in 2005-2015, Cambodia's GDP growth eased to 6.9% in 2015. With the garment and construction sectors remaining strong, the IMF expects Cambodia to grow by 7% in 2016 and 2017.

- Cambodia is the second smallest economy in the 10-country ASEAN and remains one of the least developed countries in Asia. Services is the largest sector and contributes to around 40% of GDP, while agriculture, employing approximately half of the country's labour force, represents one-third of the economy. The remaining share is attributed to the industry sector, with garments, tourism, and construction being the main industries.

- Cambodia has become a preferred production base for light industry such as garment. In October 2015, the Cambodian government decided to raise garment workers' monthly minimum wage by 9.4% from USD128 to USD140 (effective January 2016). In addition, the monthly minimum wage in Cambodia's garment sector will increase to USD153 with effect from 1 January 2017.

- Economy is growing quickly from a relatively low base. Growth appears to be mainly from construction both for urbanisation and infrastructure.

- The country is undergoing rapid urbanisation with construction section growing at an average of 11% per annum.

- 2015 registered more than 2,100 construction projects worth more than USD2.9 billion.

- Robust tourist arrivals is driving demand for new hotels and better hospitality projects.

- Rise in middle income population create demand for better residential and commercial facilities.

- China, Malaysia and Japan are Cambodia's largest investors with projects mainly in the sectors of garment and other manufacturing, banking and finance, agriculture, tourism, energy, mining, real estate, transport and telecom.

4. ASEAN FREE TRADE AREA (AFTA)

- AFTA was established in 1992. AFTA is a collective effort by ASEAN member countries to reduce/eliminate tariffs on intra-ASEAN trade. The purpose was to develop greater trade and industrial linkages among ASEAN member countries. With a combined population of 625 million people, the establishment of the Free Trade Area among ASEAN, offers vast potential for greater economic collaboration.

- AFTA has been realised through the Common Effective Preferential Tariff (CEPT) Scheme. Under the CEPT:

    - import duties among member countries will be reduced to between 0-5% by the full implementation of AFTA sinice 2010
    - elimination of quantitative restrictions (import permit, quota) & other non-tariff barriers (NTBs) among ASEAN Member countries
    - progressive transfer of products into the CEPT Scheme based on each ASEAN member's capacity and capability.

5. MALAYSIA'S TIMBER EXPORTS

5.1 Thailand

- The value of major timber and timber products imported by Thailand from Malaysia amounted to RM695.6 million, an increase of 15.3% compared to 2014.

- Panel products (plywood, veneer, particleboard and MDF) formed 14.6% of the total exports from Malaysia to Thailand valued at RM101.4 million in 2015.

Products	HS Code	Value in RM million					% Change 2015/2014
		2011	2012	2013	2014	2015	
Logs	4403	22.4	17.0	12.8	15	2.1	-85.7
Sawntimber	4407	463.1	525.7	449.6	405.7	493.7	21.7
Plywood *	4412	51.4	65.0	72.5	81.9	96.8	18.3
Veneer	4408	0.7	2.1	0.2	0.08	0.4	130.1
Mouldings	4409	1.1	2.5	2.3	1.8	1.7	-7.7
Particleboard	4410	2.1	1.0	1.0	2.2	3.5	60.7
MDF	4411	3.7	0.4	2.0	2.0	0.7	-62.4
BCJ	4418	27.9	30.8	30.5	32.4	36.3	11.8
Wooden frame	4414	1.4	1.4	1.2	0.6	1.0	46.5
Wooden Furniture	9403	50.7	59.0	42.5	41.6	43.0	3.1
Rattan furniture	-	0.8	1.3	1.6	1.7	1.4	-19.4
Others	-	44.5	54.0	17.7	17.7	15.1	-15.3
Total	**-**	**669.8**	**760.2**	**633.9**	**602.68**	**695.6**	**15.3**

Source: MTIB

** Plywood includes blockboard*

5.2 Cambodia

- In 2015, Cambodia imported RM4.1 million worth of timber and timber products from Malaysia, a steep decline of 25.4% compared to 2014.

- Panel products (plywood, veneer, particleboard and MDF) formed only 2.4% of the total exports from Malaysia to Cambodia valued at RM0.1 million in 2015.

Products	HS Code	Value in RM million					% Change 2015/2014
		2011	2012	2013	2014	2015	
Logs	4403	0.0	0.0	0.0	0.0	0.0	0.0
Sawntimber	4407	0.006	0.0	0.0	0.0	0.0	0.0
Plywood *	4412	0.007	0.01	0.03	0.24	0.0	-100.0
Veneer	4408	0.0	0.0	0.0	0.0	0.0	0.0
Mouldings	4409	0.047	0.09	0.0	0.08	0.0	-100.0
Particleboard	4410	0.0	0.1	0.0	0.09	0.1	42.8
MDF	4411	0.0	0.0	0.0	0.0	0.0	0.0
BCJ	4418	1.0	0.05	0.2	0.0	0.6	90.1
Wooden frame	4414	0.0	0.06	0.0	0.3	0.0	0.0
Wooden Furniture	9403	1.9	1.7	1.5	4.5	3.1	-32.1
Rattan furniture	-	0.6	0.9	0.04	0.04	0.0	-46.0
Others	-	0.0	0.1	0.0	0.2	0.2	54.5
Total	**-**	**3.6**	**3.0**	**1.8**	**5.5**	**4.1**	**-25.4**

Source: MTIB

** Plywood includes blockboard*

6. TRADE PRACTICE

6.1 Thailand

- 40' container rates from Port Klang to Bangkok, Thailand now only USD120 and Sihanoukville, Cambodia USD550. The difference in rates reflects the difference in balance of trade. Thailand is a net exporter whereas Cambodia a net importer.
- The common practice for payment in trade is through Letter of Credit term for 30 days and Open Account.
- There is about USD20/m^3 mark-up between FOB/CIF price and retail price.
- The preferred sources of supply are from importers and domestic supply.
- Distribution channel: Manufacturers → Large Distributors → End-users

7. OBSERVATIONS

7.1 MDF & Particleboard

7.1.1 Thailand

- In Thailand, its domestic market is controlled by three very large panel products groups, i.e., Vanachai, Metroply and Panel Plus. Only Chinese products are sold at low prices.

- Malaysian products are perceived as equivalent quality to those produced by domestic manufacturers in Thailand.

- Thailand has become the largest producer of MDF and particleboard in South East Asia, this trend is set to continue with the installation of an additional 1.5 million m^3 of capacity in the next two years.

- The rapid growth of Thailand MDF and particleboard industry has been largely driven by the abundant sustainable availability of Rubberwood. Thailand has officially 8 million hectares of official plantation and an estimated 1 million hectares of unofficial plantations.

- Most of the current production of MDF and particleboard is exported but eventually more and more will be consumed domestically as their furniture and value addition industries develop and grow.

7.1.2 Cambodia

- There is no local manufacturing of MDF and particleboard in Cambodia. Not because of lack of raw material but because of the high electricity and infrastructure costs.

- Cambodia's labour is cheap and material available but this will change over time. Rubberwood and plantation timber would become more important as a resource as the year pass.

- Cambodia is one of the few remaining countries where labour costs are relatively cheap. This will attract labour intensive furniture manufacturing and this will in turn generate a demand for panel products.

- Cambodia has large areas of relatively unexploited Rubberwood and other timber species. As infrastructure improves this will eventually encourage further investment in new MDF and/or particleboard production.

7.1.3 Indicative prices (Thailand)

- Indicative prices of MDF and particleboard in Thailand are as follows:

Products	Specifications	Price (CNF) USD
MDF	"A" Grade (Rubberwood) • 2.5 mm • 18 mm	220/m³ 195/m³
Particleboard	"A" Grade (Rubberwood) • 7 mm • 15 mm	200/m³ 185/m³

7.2 Plywood

7.2.1 Thailand

- A total of 11 Thai companies/buyers attended the discussion with the Thai Timber Association (TTA) including the Thai Panel Product Industry Club on 14 November 2016. TTA members were very receptive to the prospects of sourcing plywood from Malaysia.

- There are opportunities for plywood manufacturers in Malaysia to supply:
    - Thin plywood, i.e., 3mm – 6mm
    - Thick panels (8mm, 15mm & 8mm MR BB/CC)
    - Good quality film-faced plywood

- At present, they are importing low grade film-faced plywood (finger-jointed core) from China at USD7-12 per piece which could only be utilised for 2-3 times.

- There are small plywood mills which peel Rubberwood and Eucalyptus as core and import Keruing veneers as face/back for thick panels.

- Thailand has a large Rubberwood reserve of 8 million hectares to fuel its panel industry.

7.2.2 Indicative prices (Thailand)

- Indicative prices of plywood in Thailand are as follows:

Products	Specifications	Price (CNF) USD
Plywood	Phenolic Film-faced, 13 ply • 18 mm	555/m^3
	Phenolic Film-faced, 11 ply • 15 mm	525/m^3

7.2.3 Cambodia

- Due to Cambodia's access to quality natural forest they are able to source and produce quality veneers and plywood locally. Standard and low quality plywood is sourced from Vietnam and China.

8. CONCLUSION

8.1 MDF & Particleboard

8.1.1 Thailand

- The Thai domestic market is very difficult to penetrate by Malaysian MDF and particleboard manufacturers. Domestic supply now exceeds domestic consumption and this is set to further increase in 2017.

- Thailand is now a net exporter of MDF and particleboard and has become extremely competitive due to abundant supply of cheap raw material (Rubberwood).

- The quality of Thai panels has also improved to be equivalent or better than Malaysian material. Other costs have also come down as infrastructure in Thailand has improved.

- There is very little prospect for MDF or particleboard sales either short or long term.

8.1.2 Cambodia

- Difficult to enter the market for MDF and particleboard because of overland supply from Thailand and Vietnam. Only have chance in the future when the port is enlarged at Sihanouk.

- Prospects will depend on a significant reduction in freight rate in the short term. Long term prospects should be positive as infrastructure and development improves.

8.2 Plywood

8.2.1 Thailand

- As Thailand has stopped the harvesting of natural forest after the previous big flooding of Bangkok thus they have to rely on import of timber products especially sawntimber and plywood for their construction industries.

- There is huge potential for Malaysian plywood to penetrate the Thai market as Thailand has a robust tourism industry. New hotel construction in the northern region, e.g., Chiangmai and the northeast region bordering Laos. They are expecting the proposed high speed rail from Yunnan Province in China linking to Myanmar and Bangkok which result in accelerated growth along these routes which forms part of the China One Belt One Road.

- Thailand has very good potentials for Malaysian plywood especially for thin plywood, higher grade film-faced plywood and marine plywood.

- At present, Malaysian plywood are imported through middlemen and traders.

- For mills in Peninsular, there are opportunities in southern Thailand due to the lower freight cost and lower packing cost by using trucks to deliver.

- In the longer term, more market promotion needs to be done in order to create awareness on the benefits of using better quality panel products.

8.2.2 Cambodia

- Setting up of plywood mills in Cambodia would incur high electricity and logistic/transportation costs due to poor infrastructure. In addition, high number of annual public holidays (about 30 days) hampers productivity. Hence, Cambodians have resorted to import their timber products, particularly from China due to the price factor.

- Tourism is a booming industry which would require more hotels to be constructed in cities such as Siem Reap, Tonle Sap Lake and Sihanoukville (a province in southwest Cambodia known for its beaches). Urbanisation project in Phnom Penh is also encouraging with Diamond Island and Cambodia World Trade Centre in the pipeline.

9. RECOMMENDATIONS

9.1 MDF & Particleboard

9.1.1 Thailand

- The only opportunity for Malaysian manufacturers is to supply “value addition” panel products such as laminated, veneered, coated or secondary processed MDF and particleboard panel products.

9.2 Plywood

9.2.1 Thailand

- To explore business opportunities in Thai-Malaysia border cities.
- To promote and to create awareness on Malaysian plywood in the form of brochure and product samples.
- To organise more business visits to Thailand to build rapport and strategic alliances.
- To invite buyers to visit plywood mills in Malaysia to gain firsthand experience on the manufacturing process.
- To organise more business visits to Thailand particularly to cities which are developing fast such as Chiangmai, Chiangrai, Hua Hin, Pattaya and Bangkok to build rapport and strategic alliances with the local importers and developers.

9.2.2 Cambodia

- There are opportunities of selling Malaysian plywood to Cambodia but through strategic alliance such as through prominent Malaysian investors, e.g., Naga World Hotel, Sunway Hotel, Parkson, Public Bank, Maybank, Hong Leong Bank, CIMB and RHB.
- Visit to the Cambodia Ministry of Forestry to study their forest policies, i.e., on the available forest for felling, reforestation and land use. The Cambodian government welcome investors to invest in commercial tree planting.
- Cambodia should be used as a source of quality veneers.
- Periodical meetings should be held with the developers and importers to promote the sales of Malaysian panel products to the fast growing

Cambodia construction sector. There were 2,100 projects worth USD2.9 million being approved in 2015.

- In order to know the latest trends and firsthand information on projects, meetings should be arranged with the specifiers, i.e., architects, design houses, etc.

- More projects would roll out after their Parliamentary election scheduled in second half of 2017.

- There is opportunity in Cambodia for Malaysian Panel Products exporters by engaging directly with importers, i.e., to sell directly or find local partners or stockists to penetrate the Cambodian market as the country is expanding rapidly. This Embassy of Malaysia in Phnom Penh could help to identify some reliable partners or stockists for this new and emerging market.

Prepared by:

Malaysian Timber Council
with inputs from Members of the Market Research Visit to Thailand & Cambodia

19 December 2016

APPENDIX I

CONTACT DETAILS OF ORGANISATIONS/COMPANIES VISITED

Thai Timber Association (TTA) 13/47 Moo 1 Srinakarin 42 Srinakarin Road, Nong Bon Prawate, Bangkok 10250 THAILAND Tel: +662-330 8352 Fax: +662-330 8353 E-mail: tma.thailand@gmail.com Contact: Mr Jirawat Tangkijngamwong, Chairman (Mob: +66-81819 7889)	**Embassy of Malaysia** 33-35, South Sathorn Road Tungmahamek, Sathorn 10120 Bangkok THAILAND Tel: +662-629 6800 Fax: +662- 679 2208 E-mail: mwbangkok@kln.gov.my Contact: H.E Dato' Nazirah Hussain (Ambassador)
MATRADE Bangkok Embassy of Malaysia Commercial and Investment Office 4th Floor, Sathorn Square Office Tower North Sathorn Road, Silom Bangrak, Bangkok 10500 THAILAND Tel: +662-108 1792 / 93 / 94 Fax: +662-108 1795 E-mail: Bangkok@matrade.gov.my Contact: En Norman Dzulkarnain Mohd Nasri (Trade Commissioner/Counsellor)	**PSP Furniture & Design Co Ltd** 136 Moo 6 T.Thaweewattana A. Sai Noi, Nonthaburi 11150 THAILAND Tel: +662-197 6841 Fax: +662-197 6845 E-mail: pspfurniture@gmail.com Web: www.PSPfurniture.com Contact: Mr Jirapol Srichantnont (Export Manager)
Vanachai Group Public Co Ltd 112 Moo 1 Tambon Bantat Kaengkoi Saraburi 18110 THAILAND Tel: +663-624 1333 Fax: +663-624 1342 E-mail: sittiwat@vanachai.com pongtape@vanachai.com Contact: Mr Sittiwat Sahawat (Asst MD) Mr Pongtape Tangjion (Production Dept Manager)	**Thai Panel Product Industry Club** Queen Sirikit National Convention Centre Zone C, 4th Floor 60 New Rachadapisek Road Klongtoey Bangkok 10110 THAILAND Tel: +662-345 1000 Fax: +662-345 1268 E-mail: charoenplywood@hotmail.com Contact: Mr Ping-Hsun Huang (Secretary General)
Embassy of Malaysia No. 220-222, Preah Norodom Boulevard Sangkat Tonle Bassac Khan Chamkarmorn Phnom Penh CAMBODIA Tel: +855-23 216 176 Fax: +855-23 726 101 E-mail: mwphnompenh@kln.gov.my Contact: H.E. Dato' Sri Hasan Malek (Ambassador)	**Cambodia Timber Industry Association (CTIA)** #239H, 6A, Sangkat Prek Leap, Khan Ressey Keo Phnom Penh CAMBODIA Tel: +855-23 432 009 Fax: +855-23 432 004 E-mail: luchuchang@gmail.com Contact: Mr Lu Chu-Chang (Chairman)

APPENDIX II

PHOTOGRAPHS OF THE MARKET RESEARCH VISIT TO THAILAND & CAMBODIA

Discussion with the Thai Timber Association (TTA)

HE Dato' Nazirah Hussain, Ambassador, Bangkok

Timber sold at Bangpho Wood Street, Thailand

Visit to one of the flooring showrooms in Bangpho Wood Street, Thailand

Factory visit to Vanachai Group Public Co Ltd, Thailand

Factory visit to PSP Furniture & Design Co Ltd, Thailand

HE Dato' Sri Hasan Malek, Ambassador, Phnom Penh, Cambodia

Embassy of Malaysia, Phnom Penh, Cambodia

Networking lunch with Cambodia Timber Industry Association (CTIA) Chairman, Mr Lu Chu-Chang

Factory visit to Angkor Plywood Co Ltd, Cambodia

Diamond Island — a 100-hectare area near downtown Phnom Penh's shoreline

Phnom Penh city, Cambodia