



# Center Focus

Spring 2011

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## Director's Message

### Time of Reflection after 20 Years

Within a month, we will host our annual meeting. This will be the 20th anniversary of the center. Our members are invited to attend this very important meeting about the center's future. As I thought about my message for the *Center Focus*, I decided to provide a history of the center and how it has evolved to meet the changing needs of this industry.

**Our mission:** *“To assist firms in the forest products industry to improve the management of their operations and the marketing of their products.”*

The center was established in 1991 under the leadership of Dr. Steven Sinclair, who recognized that the forest products industry needed individuals trained in marketing and business practices to compete in a global marketplace. He established the forest products marketing program in the late 1980s and recognized that to be successful, he needed to listen to his customers (the industry). The center started as the Center for Forest Products Marketing with a handful of dedicated industry partners. I remember the first meeting held at the Holiday Inn in Blacksburg. I was a PhD graduate student at the time. Of course, I did not know anyone at the meeting, but I still remember the passion of those individuals as we discussed the importance of marketing to the forest products industry.



Unfortunately Dr. Sinclair passed away in 1993, long before his vision could be recognized. Bob Bush became the director of the center in 1994, and helped lead it to substantial growth in membership during a very strong economy for our industry. At its peak, the center had about 70 participating members with over 100 students in wood science and more than one-half of them majoring in forest products marketing. We hired a full-time membership coordinator who also handled student recruiting. There were three faculty working primarily in marketing research and education. We developed a number of marketing/sales short courses for the industry and presented regularly at industry meetings. In the late 1990s we changed our name from the Center for Forest Products Marketing to the Center for Forest Products Marketing and Management to better reflect our work and industry needs.



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## Director's Message (cont.)

In 2000, I took over as the center director and we soon had a change in our membership coordinator. We also decided to move forward with a research analyst in 2001 and appointed a separate advisory board. The economy was struggling during this period, and there was a strong interest in developing markets for low grade lumber. We initially focused the analyst's research in meeting those needs. During that period, we had another change in the membership coordinator and the market analyst decided to pursue other opportunities. By 2005, we were running the center with graduate student assistance, which has worked well up to now.

The recession that started in our industry in 2007, has had a strong impact on industry participation and today we have around 30 active members. We have also had a change in faculty participation as well, with new individuals who have backgrounds in manufacturing and innovation. This past year we merged the Sloan Forest Industries Center with the Center for Forest Products Marketing and Management to become the Center for Forest Products Business. This decision was made after much discussion with participating faculty and industry partners. Again, we believe this change reflects what the industry needs to remain competitive: marketing, business management, manufacturing effectiveness, and innovation. The student program, the Wood Enterprise Institute (WEI), now allows students to experience what industry faces everyday-from product innovation to customer satisfaction.

During the 20 years of the center's existence, our primary goal has been to provide well trained individuals in forest products marketing and management. We have graduated hundreds of students who now are leaders in the industry and many of them hold upper management positions in your companies. Thanks to your support, we have provided, on average, over \$15,000 a year to students through scholarships, and your donations help our research and outreach efforts. In a recent roundtable of the hardwood industry, marketing and market research were still one of the critical needs identified by the industry.

As we plan for our future, we need your input. As a center member you should have received a request to complete an electronic questionnaire for our planning purposes. If you haven't done so, please take a few minutes to complete the questionnaire, located at <https://www.surveymonkey.com/s/Center-for-Forest-Products-Membership-Survey>.

Your input is important for our future direction. Again, I thank you for 20 years of this partnership and if you have any questions, please contact me at [rsmith4@vt.edu](mailto:rsmith4@vt.edu) or 540-231-7679. I hope to see you at our annual meeting on March 31.

Bob Smith

## *FOREST PRODUCTS BUSINESS NEWS*

- The Cary Institute of Ecosystem Studies recently released a study of industrial and commercial heating in the Northeast. They found that forest biomass may replace up to one quarter of liquid fossil fuels used for heating. The forest biomass industry may create local jobs, incentives for forest owners, and a supply of domestic energy. *Energy Weekly News*.
- At the end of 2010, the Ohio Department of Natural Resources announced that 200,000 acres of state forest land are now certified under the independent Sustainable Forestry Initiative (SFI). *The Ohio Department of Natural Resources*.
- Allegheny Wood Products, a Petersburg, W.Va. based hardwood lumber manufacturer with mills located throughout West Virginia and in Pennsylvania, has announced the formation of a new company called Appalachian Wood Pellets. This new company will create 10 full time jobs and operate 24 hours a day in Kingwood, WV. *State Journal*.
- People are spending more money on their homes again after a period of putting off renovations during the recession. Some homeowners are spending money on large renovation projects and others are still performing smaller jobs such painting and refinishing household items. *Pittsburgh Post Gazette*.
- British Columbia's softwood lumber export to China could exceed \$1 billion in 2011. Last year, British Columbia exported approximately 2.8 million board feet of softwood lumber to China at a value of \$687 million. *Calgary Herald*.
- An increase in wood and wood products exports from Vietnam is expected to increase by 30 percent this year from \$4.1 to \$4.2 billion. According to the Vietnam Timber and Forest Products Association, Vietnam's wood export markets have started to recover after the recent recession. The United States is the top export market for wood products from Vietnam. Demand for middle price range indoor wood furniture in the United States market has started to increase. Other high potential export markets for Vietnamese wood products include India, Russia and the Middle East. *Xinhua News Agency*.
- Enviva LP, a biomass and wood pellet manufacturer, recently acquired a port terminal in Chesapeake, Va. This acquisition will allow Enviva LP to annually export 3 million tons of wood biomass. *The Associated Press*.
- The London Court of International Arbitration ruled that Canada broke the terms of a five year old agreement on bilateral lumber trade. This ruling may increase the cost of importing softwood lumber into the United States from Canada. *Vancouver Sun*.

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Forest Products Business News has been designed for educational and engagement purposes only. The intention is to report news that affects various business segments of the forest products industry. Any comments or questions should be referred to: [omar.espinoza@vt.edu](mailto:omar.espinoza@vt.edu)



# Center Focus

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## Opportunities for Appalachian Forest Products in Guatemala and El Salvador

By Scott Lyon and Dr. Henry Quesada

Dr. Henry Quesada, assistant professor, and Scott Lyon, graduate research assistant, visited eight forest product importers, two non-government organizations, and two governmental forestry agencies in Guatemala and El Salvador in November 2010. The purpose of the study was to examine the forest products markets in these countries to identify opportunities for Appalachian forest products companies. The researchers used structured interviews to collect valuable information about the organizations. The questionnaire focused on marketing and promotional strategy, logistic issues (e.g. custom's documentation, inspections, etc.) and barriers related to distribution of Appalachian forest products to Central America. The objectives of the study were to: (1) identify main competitors of forest product companies in Central American countries; (2) investigate distribution channels of forest products; and (3) investigate local production, demand, and policy of forest products in Central American countries.

### Forest Issues

The researchers found that restrictive regulations to domestic timber production in these countries may create an opportunity for Appalachian forest products. The Guatemalan government requires permission and payment of taxes before harvesting, which caused a decrease of timber harvested. Because the El Salvadorian government is taking a stand to prevent illegal forest harvesting, companies in El Salvador will be required to obtain a permit to harvest trees beginning in 2011. This permit must accompany the wood product throughout the harvesting and manufacturing process, which may cause some companies to look elsewhere for raw material.



Forests in Guatemala are mainly Forest Stewardship Council (FSC) certified by the Smartwood program through Rainforest Alliance. No certified forest lands exist in El Salvador, likely because of expensive certification costs and the Ministry of Agriculture and Livestock lags behind the widely accepted sustainable forest management practices. Many of the companies and agencies interviewed claimed that no incentives are available for companies to offer certified wood products—users primarily look at price and quality of a product when purchasing instead of certification.

Companies and agencies interviewed reported that a lack of incentives from the government is preventing reforestation. In Guatemala, government incentives are given to landowners to help fund reforestation, protection, and management of natural forests over a five to six-year plan. One agency stated that instead of harvesting forests, it is better to protect the forest in order to protect watersheds for local communities. A non-governmental organization in El Salvador claimed that the agriculture bank has given incentives to replant native tree species, but these incentives are not enough to meet the demand for wood products.



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## Opportunities for Appalachian Forest Products in Guatemala and El Salvador (cont.)

### Wood Products Market

The companies interviewed largely import pressure treated lumber, softwood lumber, panels, hardwood veneer, flooring, and furniture/parts. A wholesaler company in El Salvador imported pressure treated lumber from the United States that is treated with alkaline copper quaternary (ACQ). Some of the wood product wholesalers interviewed have dealt with wood product brokers in the United States for softwood lumber and panels, but all of the buyers were familiar with Southern yellow pine lumber from the United States. The buyers claimed that Southern yellow pine was comparable to Caribbean (*Pinus caribaea*) and radiata (*Pinus radiata*) pine they currently purchase. The companies were presented with a list of specialized wood products such as fire-retardant lumber/panel, mold and insect resistant lumber/panel, and engineered wood products (I-joist beams, glulam, laminated veneer lumber). The majority of companies agreed there will be a need for specialized wood products because of the tropical climate in Central America. The climate is hot and humid with a long period of rainy season from May to October each year (BBC Weather 2011). Some of the buyers were not aware of some of the engineered wood products available from the Appalachian region. The companies stated the need for composite products such as medium-density fiberboard, plywood, and oriented strand board for current and future building construction. In both countries, furniture constitutes a large portion of wood products production. Because the majority of hardwoods used in furniture production are reddish to dark brown in color, black cherry (*Prunus serotina*) and black walnut (*Juglans nigra*) from the Appalachian region may compete with the species currently used.

### Supplier Attributes

Buyers from the wholesalers and manufacturers were asked what criteria they take into account when selecting a wood product supplier. Buyers stated they are looking for a long history of business, on-time delivery, quality of the product, competitive price, variety and availability of products, and long term relationships. Companies preferred to buy products from other companies that have been conducting business for a long time rather than a new startup company. Companies did repeated business with suppliers who were on-time with deliveries of products. Respondents said that wood products purchased from suppliers need to be made with high quality materials. For example, a few importers complained that some plywood from China is made with poor quality materials causing the plywood to delaminate. Importers stated wood products being sold to them must be at a competitive price. For example, wood products from Chile were found to be of high quality and sold to Central American countries at a competitive price.



**Figure 1.** Main Port Access for Guatemala and El Salvador (Adapted from EcoWorld 2011).



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## **Opportunities for Appalachian Forest Products in Guatemala and El Salvador (cont.)**

Some companies required their suppliers to have a large assortment of products available for fast shipping. Some wholesalers stated they had problems with suppliers not meeting lead times and not having products in stock when purchasing. When companies are looking for new suppliers they want to have a long term relationship by making frequent orders and having help in promotion of products such as at tradeshow.

### **Transportation Issues**

Logistics for importing did not seem to be a problem in Guatemala. The main port of entry in Guatemala is Puerto Barrios on the Caribbean coast. The Appalachian region may have a problem importing directly to El Salvador. Most imports to El Salvador arrive by ship to either Guatemala or Puerto Cortes, Honduras and trucked to El Salvador. Figure 1 shows the locations for the main ports for entry in Guatemala and El Salvador.

### **Conclusions**

The main goal of the study was to examine the opportunities for Appalachian wood products in Central America. The majority of Guatemala and El Salvador wood products companies interviewed were willing to import wood products from the Appalachian region. The best market strategies for Appalachian wood product companies to access the Central American market are to partner with local wholesalers, offer higher quality products than local suppliers, and keep prices similar to local competition. Because the Appalachian region's forest products industry offers products that are similar to those currently imported to Guatemala and El Salvador, they may have a unique opportunity to expand their markets in Central America.

### **Literature Cited**

Ecoworld 2011. Map of Central America & Central American Georegions. EcoWorld. <http://www.ecoworld.com/maps/georegion-central-america.html>. Accessed February 9, 2011.

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# Center Focus

## *Calendar of Events & Announcements*

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### **Open House: Wood Enterprise Institute (WEI)**

Brooks Forest Products Center. Blacksburg, Va. 3-5 pm on Tuesday, March 29, 2010. Take a tour to see what the WEI does: student experiences, product offerings, processes and tools, business solutions, live demonstrations, refreshments, prizes and more. For more information, contact Earl Kline at (540) 231-8841 or email [kline@vt.edu](mailto:kline@vt.edu).

### **Online Course: Lean Thinking and Energy Savings (in Spanish)**

March 24, 29, and 31 (2 hours per day). Please contact Dr. Henry Quesada at [quesada@vt.edu](mailto:quesada@vt.edu) or (540) 231-0978 for more details.

### **Workshop: Why Lean Administration?**

Morrisville, N.C. March 29-30, 2011. 2-day Workshop on Lean Administration. Outcomes: Understanding of lean administration; ideas how to improve your administrative processes; and access to lean community. Speakers: Adrienn Andersh, Akiko Nakata, Mathias Schmitt, Chao Wang, and Angela (Yu) Zhou. For more information please contact Mathais Schmitt at (540) 443-6688 or [info@vtlean.org](mailto:info@vtlean.org)

### **Annual Meeting: Center for Forest Products Business**

Brooks Forest Products Center. Blacksburg, Va. March 31, 2010. 9:00 AM to 2:30 PM.

### **Workshop: Supply Chain Management in the Wood Products Industry.**

Jasper, Ind. May 17, 2011. Speakers: Earl Kline (VT), Henry Quesada (VT), and Edie Schmidt (Purdue University). Speakers: Earl Kline (VT), Henry Quesada (VT), Omar Espinoza (VT), and Edie Schmidt (Purdue University). For more information please contact Henry Quesada at (540) 231-0978 or [quesada@vt.edu](mailto:quesada@vt.edu)

### **Workshop: International Marketing**

Charlottesville, Va. June 14, 2011. The objectives of the workshop are to introduce fundamental marketing and logistic concepts when looking to export, to present market opportunities for Appalachian forest products firms in Central America, and to provide marketing intelligence information on emerging global forest products markets. Please contact Dr. Henry Quesada at [quesada@vt.edu](mailto:quesada@vt.edu) or (540) 231-0978 for more details.

### **Conference: 3rd International Scientific Conference on Hardwood Processing (ISCHP<sup>3</sup>11).**

Blacksburg, Va. October 16-18, 2011. ISCHP<sup>3</sup>11 will bring industry professionals, scientists, association representatives, government employees, suppliers, and customers together to share knowledge, ideas, and to network. The conference will cover hardwood related issues from the source to the customer, discuss recent developments, and show paths into the future. ISCHP<sup>3</sup>11 will have a special focus on sustainability and Certification. For more information contact Urs Buehlmann at (540) 231-9759 or email [ischp2011@gmail.com](mailto:ischp2011@gmail.com)