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SUSTAINABLE EXPANSION OF FORESTRY AND WOOD PROCESSING IN LAOS AND AUSTRALIA

Information Note: ***The Emergence of the Veneer & Plywood Sector in Guangxi, China and The Role of Eucalyptus Plantations***

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Authors: Phouluang Chounlamounty and Stephen Midgley







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The Emergence of the Veneer & Plywood Sector in Guangxi, China and The Role of *Eucalyptus* Plantations

In response to rising national demand for wood and wood fibre, China's plantation eucalypt resources have grown rapidly to 6 million hectares (Figure 1), making it the world's second-largest grower of these species (Arnold *et al.* 2026). At last year's meeting of the China Eucalypt Association, the Chinese Academy of Forestry presented figures showing that the country's *Eucalyptus* value chain exceeded 1 trillion RMB annually (US$146 billion) in 2025.

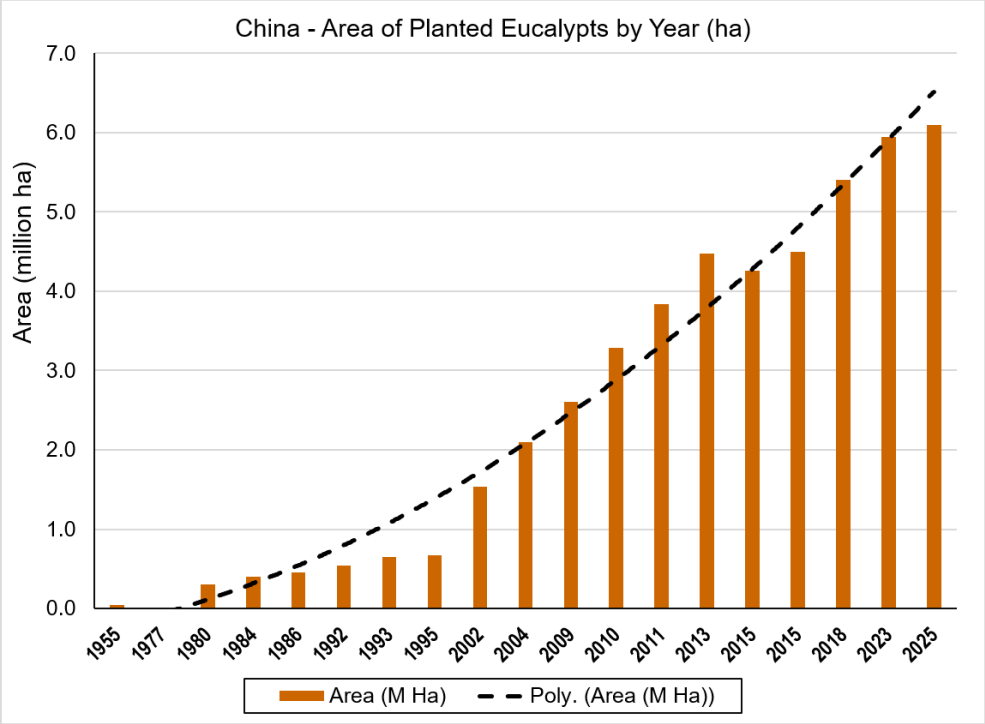


Figure 1. Area of planted eucalypts in China from 1955 to 2025.

In the southern Guangxi Zhuang Autonomous Region – a region about the same size as the Australian state of Victoria yet with a population of 50 million people – the *Eucalyptus* industry chain provides about 500 billion RMB annually (US$73 billion) to the province's forestry output. Guangxi has solidified its position as an integral part of China's forest industries, anchored by an estimated 3.2 to 3.5 million hectares of fast-growing plantation eucalypts, over 70% of which is grown by smallholders and small- to medium-sized growers. This resource yields between 45 and 47 million cubic metres of industrial roundwood annually. Historically divided between rotary veneer peeling for construction plywood, panel board production (MDF and particleboard), and woodchips for paper production, the region's wood processing matrix has undergone a major transformation driven by a domestic real estate contraction, global geopolitical and trade disruptions, and logistics realignments. (Midgley *et al*, 2026).

1. Resource Allocation Across Panel and Engineered Wood Sectors

Guangxi accounts for over a third of China's total timber production, with short-rotation eucalypts—primarily clones of the hybrid *Eucalyptus urophylla* × *E. grandis* (such as DH32-29)—contributing approximately 70% of the provincial harvest. The downstream utilisation of this resource spans five primary product segments:

Sector	Estimated Capacity / Volume	Raw Material Specification
Veneer & Plywood	~60 million m³ (Core Veneer Production)	Peeled logs (8–18 cm diameter)
MDF / HDF	5–10 million m³ Capacity	Debarked small-diameter stems (4–8 cm)
Particleboard	8.8 million m³ Capacity	Processing residues, tops, and mixed species
Chemical Pulp	>30 million tonnes (Regional Paper/Pulp Capacity)	Whole-logs and Tailwood (anomaly where small chips commanded parity with peeler logs chipped)

Plywood and Rotary Veneer

- **Capacity and Volume:** Guangxi's annual plywood capacity approaches 76 million m³, with actual provincial production estimated at approximately 60 million m³. Nanning and surrounding districts (such as Guigang) form the largest eucalyptus plywood cluster in China, supporting nearly 400 enterprises with an annual regional capacity of 8 million m³.

- **Manufacturing Dynamics:** The industry operates largely on a "separation model," wherein thousands of decentralised, family-run mills operate small-scale spindleless rotary lathes. These mills peel 1.3 m peeler logs (8–18 cm diameter) grown on 5- to 7-year rotations into green core veneers (1.6–2.0 mm thick). These core veneers are dried and supplied to secondary assemblers who combine them with imported hardwood face veneers (e.g., okoume, bintangor) or phenolic surface films. These face veneers come from natural tropical forests, and may or may not be certified as they come through a variety of suppliers. Face-veneer costs are rising:

- **Integrated Producers:** Besides smallholders, large integrated corporate producers—including Guangxi Fenglin Wood Industry Group (650,000 m³ capacity; SHA: 601996), Nanning Hengxing, Guangxi Banbang, and Guangxi Yuegang - maintain internal resin, veneer, and panel manufacturing lines.

- **National Context:** China had more than 5,010 plywood mills with 246 million m³ of annual capacity at the end of 2025, 11% more than a year earlier (ITTO, 2026). Guangxi's ~76 million m³ therefore represents about 31% of national capacity (calculated). Because national capacity now exceeds domestic demand (see Section 4), further capacity growth adds to export pressure rather than domestic supply.

Medium-Density and High-Density Fibreboard (MDF/HDF)

- **Capacity:** Guangxi's fibreboard capacity sits between 5 and 10 million m³ annually, with a defensible industry working baseline of 7 to 8 million m³.

- **Corporate Mega-Mills:** The sector is capital-intensive, featuring advanced continuous presses:

    - *Guangxi Lelin Forestry Development Co.:* >1.3 million m³ total panel capacity, anchored by an 80-metre Dieffenbacher continuous press producing 630,000 m³/yr.
    - *Fenglin Group:* Operates three advanced MDF facilities contributing heavily to its 1.8 million m³ total board capacity.
    - *Guangxi Forestry Industry Group:* >770,000 m³ across three factories.
    - *Guangxi Huafeng Forestry & Guoxu Forestry:* 1.0 million m³ and 850,000 m³ capacity, respectively.

- **Furnish Quality:** Unlike particleboard, MDF requires clean, debarked stems and small-diameter pulpwood (typically 4–8 cm diameter). Refiner plates are easily damaged, and grit or high bark content compromises surface quality.

Particleboard

- **Capacity:** China's national particleboard capacity reached nearly 66 million m³/year, of which Guangxi represents 8.8 million m³ (~13% of the national total). New production lines in 2026 are heavily weighted toward ENF (zero-formaldehyde) grades.

- **Furnish Composition:** Particleboard operates on an industrial cascade model. While fast-growing eucalyptus remains the primary fibre, the furnish incorporates substantial volumes of secondary industrial residues: veneer peeler cores, sawmill slab offcuts, reject veneers, logging branch wood, Masson pine (*Pinus massoniana*), and agricultural residues like bagasse and bamboo.

Laminated Veneer Lumber (LVL) and Engineered Wood Products (EWP)

- **Technical Adaptation (Mixed Lamination):** Pure eucalypt LVL suffers from internal growth stresses, high density, and localised adhesive failure during hot pressing. To resolve this, Guangxi mills adopted alternating-layer lamination—interleaving dense eucalypt core veneer with softer poplar (*Populus* spp.) or imported New Zealand radiata pine (*Pinus radiata*) veneers. This hybrid lay-up mitigates shear stresses and prevents panel warping.

- **Emerging Products:** The EWP sector includes structural LVL for scaffolding and non-bearing construction studs (predominantly exported to Australia and Japan), I-joist beams featuring LVL flanges and OSB webs (e.g., ROCPLEX), and high-load structural plywood (>9 mm).

Delivered Log Economics and Size Segregation

Delivered mill-gate prices in Guangxi stand at 530–550 RMB/green metric tonne (GMT) (US$77.69–$80.62/GMT). Large sorting yards systematically grade roundwood to capture dimensional premiums:

Product Category	Small-End Diameter	Price / GMT (RMB)	Price / GMT (USD) DOCX	Technical / Operational Specification
High-Grade Veneer Logs	>12 cm	650 – 750+ RMB	$95.28 – $109.94+	Straight stems, minimal split, peeler blocks
Standard Veneer Logs	8 – 12 cm	530 – 550 RMB	$77.69 – $80.62	Standard core veneer peeler logs
Pulpwood & MDF Logs	4 – 8 cm	450 – 500 RMB	$65.97 – $73.30	Small stems, tops; requires debarking for MDF
Biomass / Residues	<4 cm / Residues	300 – 380 RMB	$43.98 – $55.70	Peeler cores, offcuts, branches, industrial fuel

Delivered Cost Breakdown (530–550 RMB/tonne baseline): Smallholder grower stumpage accounts for ~60% (300–350 RMB), harvesting and processing ~20% (100–120 RMB), extraction and roadside loading ~10% (40–60 RMB), road haulage ~10% (60–80 RMB), and administrative imposts/weighbridge charges ~2% (10–20 RMB).

2. Impact of the Domestic Housing Downturn on Wood Panels

The sharp structural contraction in China's commercial and residential property sector removed a foundation of Guangxi's panel demand: The property market is now in its sixth consecutive year of contraction: real estate investment fell 19.2% to RMB 4,300.9 billion in January–July 2026, sales remain 65% below their 2020 peak, and analysts cited by ITTO do not expect stabilisation before 2027 (ITTO, 2026).

- **Collapse of Construction Plywood and Formwork:** Historically, the primary domestic outlet for Guangxi eucalypt plywood was film-faced concrete formwork (building templates)

and interior sub-flooring. As new housing project starts declined, the market for multi-use film-faced panels contracted severely.

- **Roundwood Price Compression:** At the peak of the construction boom, unsegregated eucalypt logs commanded delivered prices exceeding 800 RMB/tonne. As real estate investment fell, log prices declined toward 300 RMB/tonne—undercutting smallholder production costs where high land-lease rates had been locked in during market peaks.

- **Insolvency in the "Separation Model":** The downstream collapse forced widespread shutdowns among unintegrated veneer-peeling and small-scale plywood mills across Nanning and Guigang. These smaller family mills lacked long-term offtake agreements or the working capital required to absorb finished goods inventory during market downturns.
- **Exogenous Chemical Supply Shocks:** Margin distress was intensified by external disruptions in Middle Eastern petrochemical logistics. Because China imported over 8.7 million tonnes of methanol from Iran (around 60% of total methanol imports), the effective closure of the Strait of Hormuz led to domestic chemical price surges for formaldehyde, phenol, and MDI resins. Wood-based panels with high binder requirements suffered acute cost inflation:
  Particleboard (10–14% resin) > MDF (8–12% resin) > LVL (6–9% resin) > Plywood (5–8% resin)

Because resin represents only 5% to 8% of plywood mass, veneer panels experienced less chemical-driven margin compression than particleboard and MDF. Nonetheless, low finished panel prices made it impossible to pass resin cost increases onto domestic builders.

3. Structural Diversion of Fibre (Market Drivers): The Pulp Sector as Market Stabiliser

The contraction of the solid wood panel market freed up raw eucalyptus wood fibre, which Guangxi's expanding pulp and paper industry absorbed.

Market Driver	Primary Industrial Impact	Resulting Raw Material / Market Outcome
Softening Real Estate & Construction	Panel mill closures and reduced board output	Substantial volumes of eucalyptus fibre diverted away from solid wood processing
Pulp Mega-Mill Additions	High regional woodchip and fibre deficit	"Tailwood" anomaly where small chips commanded parity with peeler logs
Chemical Resin Supply Shocks	Severe margin compression for PB and MDF	Pulp sector establishes a firm farm-gate price floor (450–500 RMB/t) unburdened by resin costs

The Pulp Capacity Surge

Anticipating regional structural shifts, provincial industrial planning accelerated the introduction of multi-billion-yuan pulp and paper facilities. Guangxi's total designed pulp and paper capacity exceeded 30 million tonnes, anchored by major production centres:

- **Nine Dragons Paper (Beihai):** Asia's largest integrated paper manufacturing base, featuring 2.45 million tonnes of chemical pulp capacity requiring ~5.15 million Bone Dry Metric Tonnes (BDMT) of woodchips annually.

- **Sun Paper (Beihai & Nanning):** Invested 22.8 billion RMB in Beihai (1.4 million tonnes BHKP/BCTMP consuming ~2.4 million BDMT) and added large-scale high-Kappa hardwood chemical lines (including a 1,600 adt/day facility) at Nanning Port.
- **APP China / Sinar Mas (Qinzhou - Jingui):** Operates 1.5 million tonnes of chemi-mechanical pulp (APMP) lines consuming ~1.8 million BDMT.

- **Lee & Man Paper (Guigang) and Xianhe (Laibin):** Sited directly in the central inland eucalyptus belt.

Combined woodchip demand from the top coastal and inland mega-mills exceeds 10 million BDMT (~20–22 million m³ roundwood equivalent) annually.

Fibre Diversion and the "lops and tops" Anomaly
Historically, tree trunks (large straight logs) fetched high premiums as sawn wood while "lops and tops" (off-cuts, tops, branch wood, crooked stems sub-8 cm) were sold cheaply for woodchips or fuelwood. When panel mills reduced intake, pulp companies quickly absorbed this material and demand remained high. This dynamic created a temporary pricing inversion where chips from these lower-quality sources commanded a higher relative value per dry unit than stem logs sold to idling panel factories. Consequently, smallholders and foresters redirected whole tree-length logs. Eucalyptus Guangxi directly into mobile and centralised chipping operations serving Sun Paper and Nine Dragons.

Establishing a Farm-Gate Price Floor
Chemical pulp mills rely on physical and mechanical wood pulping and are not exposed to the synthetic resin supply shock that affected the panel sector. As a result, the pulp sector's balance sheets remained intact, allowing pulp woodchippers to establish a baseline price floor of 400–500 RMB/tonne for roundwood. This prevented widespread abandonment of rural eucalyptus plantations, stabilising farm-gate returns at 490–560 RMB/tonne across major procurement hubs like Nanning, Yulin, and Beihai.

Interaction with Imported Chips
Despite capturing diverted domestic logs, coastal mega-mills continued importing woodchips. Between January and April 2026, Chinese hardwood chip imports grew 22.8% year on year to 5.847 million dry tonnes. Vietnam (+31% export volume) and Thailand (+27%) supplied the majority, with FOB prices softening slightly from US$178 to $172–$178/BDMT.

Imported chip parity set a theoretical price ceiling for Guangxi eucalyptus clean chips at roughly 1,200–1,250 RMB/BDMT (down from 1,380 RMB in early 2026), driven by softening global pulp prices (BHKP falling from 5,033 to 4,500 RMB/tonne). Domestic pulp mills continuously balance local log deliveries against seaborne woodchips to optimise furnish costs.

4. Strategic Adjustments: Export Pivot and Engineered Wood Economics

To offset subdued domestic construction, Guangxi panel and engineered wood producers redirected output into export corridors.

Plywood Export Surge and Geographical Reorientation
Chinese plywood exports rose 24% year-on-year in Q1 2026 to 3.656 million m³, following a record export volume of 12.99 million m³ in 2025. This occurred despite major trade headwinds:

- **Western Market Access Barriers:** The EU enacted definitive anti-dumping duties of 86.8% under Regulation (EU) 2025/2333, alongside stringent EUDR geolocation requirements, effectively closing off continental European buyers. This accelerated an

earlier drop caused by US trade tariffs (US imports collapsed from 2.18 million m³ in 2006 to 150,000 m³ in 2025). US access has narrowed further: the US Department of Commerce set a 187.27% antidumping margin on Chinese hardwood and decorative plywood, and shipments to the US fell 33% to 74,008 m³ in H1 2026 (ITTO, 2026; Ross, 2026).

- **Emergence of Alternative Outlets:** Mill production was redirected to regional trade partners and infrastructure initiatives:

Export Destination for Plywood	Q1 2026 Volume (000 m3)	YoY Growth (%)	Strategic & Logistical Drivers
Philippines	245	+10%	Top global destination; modular construction demand
United Kingdom	215	+21%	Non-EU market avoiding Regulation 2025/2333 duties
UAE	210	-6%	Middle Eastern commercial buildouts; resilient baseline
Nigeria	199	+41%	West African commercial expansion
Myanmar	180	**+611%**	Cross-border overland transit (7–10 days; 30–40% freight saving)
Australia	177	+59%	Strong structural demand; backhaul maritime economics
Saudi Arabia	163	-29%	Neom / Vision 2030 projects; affected by Gulf freight spikes
Vietnam	140	+33%	Intermediate furniture assembly and re-export hub

The Myanmar corridor proved particularly dynamic, allowing Guangxi manufacturers to supply interior boards and construction formwork overland, bypassing maritime bottlenecks and avoiding sea freight and insurance surcharges. Growth accelerated from +611% in Q1 to +1,708% for H1 2026, making Myanmar China's largest plywood market (836,000 m³). Analysts cited by ITTO attribute this to low border-trade costs, Regional Comprehensive Economic Partnership (RCEP) tariff benefits and cross-border yuan settlement. With little domestic plywood capacity and timber exports worth only about US$19.11 million a year, Myanmar depends on imported panels (ITTO, 2026).

First-Half 2026 Update

China Customs data published by ITTO show plywood exports of 7.883 million m³ in H1 2026 (+21% year on year), worth US$2.646 billion (+5%). Three points are relevant to Guangxi producers:

- **Volume momentum held:** Implied Q2 exports of ~4.23 million m³ were about 16% above Q1 and ~19% above Q2 2025, only slightly below the +24% recorded in Q1 (calculated).

- **Prices weakened:** The average export unit value fell to ~US$336/m³, about 13% below H1 2025 (calculated). The export pivot is absorbing surplus volume at lower prices rather than restoring mill margins.

- **Market mix shifted:** Myanmar replaced the Philippines as the largest market; Gulf demand weakened further (Saudi Arabia −32% and UAE −38% in H1, against −29% and −6% in Q1); Australian growth remained steady (+55%, against +59% in Q1).

Plywood Imports: Now Marginal
Plywood imports fell 27% to 138,000 m³ in H1 2026, 87% of them from Russia, so China now exports about 57 m³ of plywood for every cubic metre it imports. ITTO concludes that domestic capacity is sufficient to meet domestic demand and imports are no longer needed, confirming that Guangxi competes as a surplus, export-oriented producer (ITTO, 2026; Ross, 2026).

Particleboard Export Growth
Chinese particleboard exports surged 126% in volume during Q1 2026 to 352,000 tonnes (valued at US$110 million). Demand from Southeast Asian furniture manufacturing hubs drove this export wave (shipments to South Korea rose 822% to 122,000 tonnes; Vietnam grew 208% to 28,000 tonnes; Peru rose 142% to 26,000 tonnes). Regional Comprehensive Economic Partnership (RCEP) tariff exemptions and automated continuous-press facilities producing low-emission E0 and ENF panels supported the competitiveness of Chinese particleboard. Growth continued into mid-year, with Australian imports of Chinese particleboard rising 256% in H1 2026 (Ross, 2026).

Structural Cost Advantages in LVL
As analysed by Steve Walker (Terrafolia Advisory), China's rising presence in global LVL markets (notably penetrating Australia at the expense of Nordic and Baltic producers) stems from raw material procurement and measurement conventions rather than simple manufacturing subsidies:

- **Log Measurement Arbitrage (JAS Scaling):** Chinese mills import New Zealand radiata pine KIS-grade peeler logs scaled under the Japanese Agricultural Standard (JAS). The JAS formula calculates volume strictly from the small-end diameter:

$$V = \frac{D^2 \times L}{10{,}000}$$

Where:

- V = volume in m^3
- D = small-end diameter in cm (rounded down, subtracting 2 cm)
- L = length in metres (excluding trim allowance)

Because this formula ignores stem taper on logs under 6 metres, the invoiced JAS volume represents only 75% to 80% of actual usable wood volume. When converted to true solid volume, the delivered mill-gate cost of landed NZ softwood drops from US 102/ JAS m^3 to under US90/m³ (true volume). By contrast, European mills purchase spruce and Scots pine at delivered true costs above €120/m³.

- **Integration with Low-Cost Domestic Veneer:** Chinese LVL producers blend this imported softwood with cheap domestic Guangxi eucalypt veneer peeled on spindleless lathes. Because wood furnish represents over two-thirds of LVL manufacturing costs (adhesives account for ~20%), this hybrid approach gives Chinese manufacturers a decisive edge in commodity structural markets.

- **Freight and Backhaul Efficiencies:** Chinese LVL shipments to Australia benefit from container availability on major industrial export corridors, resulting in shorter transit windows and lower freight costs compared to transatlantic routes originating in Europe.

5. Infrastructure Transformation: The Pinglu Canal Logistics Corridor

The commissioning of the Pinglu Canal represents a long-term structural logistics shift for the Guangxi forest sector.

Direction of Travel	Primary Terminus	Vessel Capacity	Typical Cargoes	Strategic Advantage
Southbound	Qinzhou / Beibu Gulf Ports (Deepwater / Export Berths)	5,000-tonne river barges	Domestic eucalyptus roundwood, finished wood panels, pulpwood	Bypasses road bottlenecks; generates 18–30% in overall freight savings
Northbound	Yu River / Nanning Port (Inland Riverside Mills)	5,000-tonne river barges	Imported hardwood chips from Vietnam, Thailand, Australia, and Latin America	Lowers delivered cost of imported fibre to inland digesters; replaces truck/rail transfers

Canal Specifications and Route Geometry
The Pinglu Canal is a 134.2-kilometre, Class-I inland waterway connecting the Xijiang (West River) basin at Hengzhou on the Yu River directly south to the Qin River and the Beibu Gulf. Engineered with three-tiered navigation locks (including the Ma'dao hub), the canal accommodates 5,000-tonne vessels (up to 90 m length, 15.8 m beam, and 5.0 m draft).

Freight Economics and Distance Reductions

- **Bypassing the Pearl River Detour:** Historically, waterborne freight from southwest China had to travel east along the Xijiang through Guangzhou and the Pearl River Delta before heading out to sea. The Pinglu Canal shortens the inland waterway transit to the open sea by roughly 560 km.

- **Direct Cost Savings:** The corridor lowers regional logistics costs by 18% to 30%, generating an estimated US$700 - 730 million in annual regional savings [cite:1]. For bulk woodchips, direct logistics savings are estimated at 30RMB/BDMT (US$4.50/BDMT) ,relative to long-distance road trucking. A single 5,000-tonne canal barge replaces between 150 and 170 heavy trucks, bypassing highway tolls, fuel surcharges, and road congestion.

Bilateral Supply Chain Optimisation
The canal acts as a two-way transport corridor that benefits both solid wood processors and pulping facilities:

- **Southbound Cargoes (Domestic Timber and Value-Added Panels):** Inland eucalyptus roundwood, sawmill residues, and finished panels (plywood, LVL, MDF, and particleboard) manufactured in inland hubs like Nanning, Guigang, and Laibin can be barged directly to deepwater docks at Qinzhou and Beihai. This significantly reduces the FOB export cost of Guangxi panels destined for ASEAN, Middle Eastern, and Australian markets. Concurrently, it delivers domestic small-diameter logs and woodchips directly to coastal mega-mills.

- **Northbound Cargoes (Imported Hardwood Woodchips):** Deepwater ocean berths at Beihai, Qinzhou, and Fangchenggang receive ocean-going woodchip carriers from Vietnam, Thailand, and South America. River barges can now load imported hardwood chips directly from ocean berths and transport them inland through the canal locks to riverine mills (such as Sun Paper’s Nanning facility). By lowering inland delivered import costs, the canal lets riverside mills run imported chips alongside local wood economically.

Mitigating Transnational Fibre Pressures
The opening of the Pinglu Canal helps buffer regional pulp groups against wider supply shifts in the Asia-Pacific. In late 2025, the Indonesian government revoked significant plantation concessions from major corporate groups (affiliates of APP and APRIL), creating domestic fibre shortages across Indonesian mills. Indonesian buyers responded by purchasing spot hardwood chips across Southeast Asia—increasing purchases of Thai eucalyptus chips by 557% in early 2026, lifting regional FOB prices to US$85–$90/GMT and tightening wood availability for cross-border mills such as Sun Paper's Xepon complex in Savannakhet, Laos.

By providing low-cost internal water transport across Guangxi, the Pinglu Canal gives multi-site producers operational flexibility. They can source domestic Guangxi timber for their Chinese operations at low freight costs, reserving regional Southeast Asian wood supplies to support their external mills.

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