



COFI Conference Panel on Competitiveness April 12, 2007

Forest Products



Overview

- Introduction
- Cost factors
- Recent trends
- Opportunities
- Global market competitiveness
- Industry consolidation
- Emerging markets competition



Introduction

- Our Panel discussion is on competitiveness of B.C. and Canada in the forest products industry.
- We have organized our discussion as follows:
 - John Desjardins will provide an overview of some of the key factors influencing the competitiveness of the forest products industry.
 - Russ Taylor will provide an array of statistics and insight by comparing the B.C. industry with the rest of Canada and around the Globe.
 - Hank Ketcham will provide his insight into the industry and what the industry is doing and what it needs to do to be competitive.

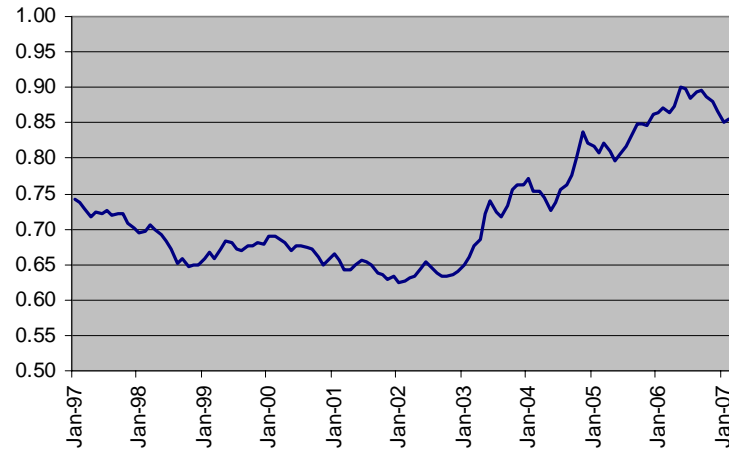
Cost Factors

• Cost Factors	• Other Key Factors
<p>Business costs</p> <ul style="list-style-type: none">• Raw materials (fibre)• Labor wage/salary/benefits costs• Transportation and distribution costs• Utility costs• Financing costs• Federal/state/local taxes	<p>Business environment</p> <ul style="list-style-type: none">• Log exports, Crown vs private lands, stumpage• Labor availability and skills• Access to markets, customers and suppliers• Road, rail, port, infrastructure• Utility service reliability• Regulatory environment• Government funding, partnership, and collaboration



Canadian Dollar

US Dollar Average Jan 1997 - March 2007



Euro Average Jan 1999 - March 2007



Source: Bank of Canada

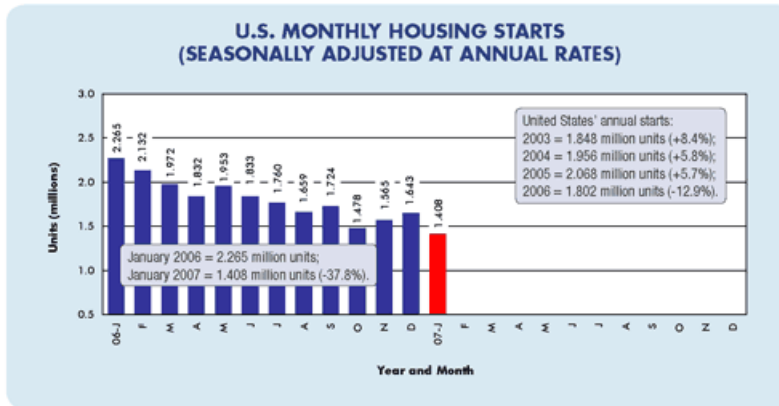




Housing Starts

U.S. NATIONAL HOUSING STARTS MONTHLY – JANUARY 2007

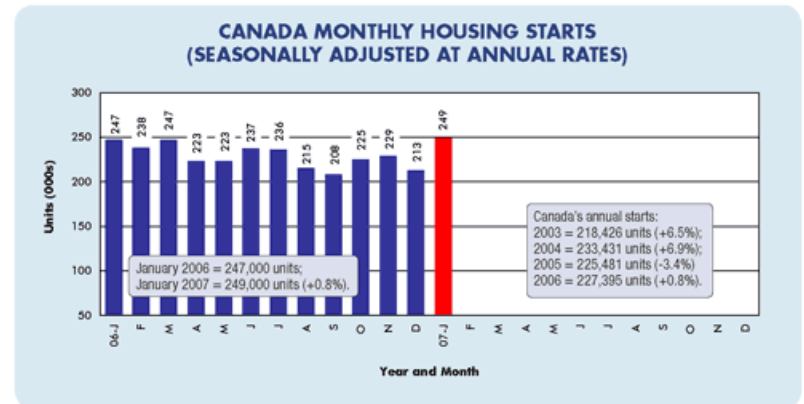
Alex Carrick – Released February 27, 2007



Data source: U.S. Census Bureau (Department of Commerce).
 Chart: Reed Construction Data – CanaData.

CANADA: NATIONAL HOUSING STARTS MONTHLY – JANUARY 2007

Alex Carrick – Released February 27, 2007



Data source: Canada Mortgage and Housing Corporation (CMHC).
 Chart: Reed Construction Data – CanaData.



Recent Trends

- Lumber
 - U.S. housing starts
 - Softwood Lumber Agreement
 - Beetle wood
 - Asia / Europe
- Oriented Strandboard (OSB) and Plywood
 - U.S. housing starts
 - New capacity
 - Will plywood continue to lose market share to OSB?
- Newsprint
 - Demand is declining due to shift from print to online media and lower bases weights
 - Opportunities with emerging markets
- Pulp
 - Sale prices remain strong but what about outlook?
 - Production declined in the States and Canada but the decline was much greater in Canada 2005 (-4.5%) vs US (0.8%)*
 - China is a growing source of global demand for fibre
 - Older Northern mills have been closing



Opportunities

- Renewable energy and climate change is driving demand for wood energy upward
- BC's Energy Plan (Feb 07):
 - Clean energy fund of \$25 million
 - Biomass opportunities
- Generate electricity from mountain pine beetle wood by turning wood waste into energy
- Opportunity to create new trade in the future
- Trade in wood energy depends on transportation costs and which is advantageous for coastal communities with access to ship transport
- Engineered wood products that are environmentally friendly and efficiently produced are gaining attention
- Tap into emerging markets

Industry Consolidation

Industry consolidation allows for:

- Global competition
- Decrease in operating costs
- Expansion and diversification of products

Recent Canadian Merger and Acquisition Activity includes:

- Fraser Papers and Katahdin Paper Co. (Brascan)
- Abitibi-Consolidated and Bowater
- Domtar and Weyerhaeuser Fine Paper Business

Paper and Forest 2006		Paper and Forest 2005	
# of Deals	Value Millions	# of Deals	Value Millions
34	5,714	29	3,093

Source: Financial Post Crosbie: Mergers and Acquisitions in Canada

Global Mergers and Acquisitions – Cross Border

(Source: MergerMarket Jan 2006-March 2007)

Target	Bidder	Type	Value
Bell Pole Company (Canada) (Seller Bell Lumber & Pole Company , US)	Stella-Jones Inc. (Canada)	Cross border	USD \$18 Million
Carter Holt Harvey (New Zealand)	Hancock Timber Resource Group (US)	Cross border	USD \$657 Million
Conros Corporation (Canada)	Jarden Corporation (US)	Cross border	n/a
Finnforest Romania Srl (Romania)	J.u.A. Frischeis Gesellschaft M B H (Austria)	Cross border	n/a
International Paper (Brazil)	Votoratim Celulose e Papel SA (Brazil)	Cross border	n/a
International Paper Company (US)	West Fraser Timber (Canada)	Cross border	USD \$325 Million
Jaling Froest Industries (Guyana)	Wild Forest Ltd (HK, China)	Cross border	USD \$20 Million
Koller Holz GmbH (Czech Republic)	Holzindustrie Pfeifer GmbH & Co KG (Austria)	Cross border	n/a
Lyssand Treindustri AS (Norway)	Inwido (Sweden)	Cross border	n/a
Neenah Paper (Canada)	Wagner Forest Management Ltd (US)	Cross border	USD \$140 Million
Niels Ulrich Pedersen APS (Denmark)	STA A/S (Denmark)	Cross border	n/a
Opus Asset Management Group (Belize)	Forest Resources Management (US)	Cross border	USD \$5 Million
Ornamental Mouldings Company (Canada)	Tenon Ltd. (New Zealand)	Cross border	n/a
PIK-89 (Russia) Norwood S.A. (Chile) Sociedad Agricola y Forestal Alepue (Chile)	Fondo de Inversion Bio Bio S.A. (Chile)	Cross border	USD \$342 Million
PT Umbul Mas Wisesa (Indonesia)	Jabelmalux SA (Luxembourg)	Cross border	USD \$10 Million
Rayonier (New Zealand)	AMP Capital (Australia)	Cross border	USD \$79 Million
Sia Vika Wood (Latvia)	Norvik Ltd (Iceland)	Cross border	n/a
West Fraser Timber co. (Canada)	Hampton Affiliates (US)	Cross border	USD \$70 Million
Zapkarelles Zao (Russia)	Flexa Holding AS (Denmark)	Cross border	n/a



Global Mergers and Acquisitions – Domestic

(Source: MergerMarket Jan 2006-March 2007)

Target	Bidder	Type	Value
Augusta Lumber (US)	H.I.G. Capital (US)	Domestic	USD \$48 Million
Baro Wood AB (Sweden)	Sodra AB (Sweden)	Domestic	n/a
Bosques Naturales (Spain)	Promociones Keops (Spain)	Domestic	USD \$22 Million
Cascade Timberlands (US) Sedgwick CMS Holdings (US) Fidelity National Financial (US)	Fidelity National Title Group (US)	Domestic	USD \$940 Million
Dingess-Rum Properties (US)	Natural Resource Partners (US)	Domestic	USD \$140 Million
Georgia-Pacific (US)	Roseburg Forest Products Company (US)	Domestic	n/a
Grupo Garnica (Spain)	Qualitas Equity Partners (Spain)	Domestic	USD \$74 Million
Henson Building Materials (US)	Warner Robins Supply Co. (US)	Domestic	n/a
Moelven Industrier (Norway)	Eidsiva Energi (Norway)	Domestic	USD \$306 Million
Pine Wood Products (US)	Robbins Manufacturing Company (US)	Domestic	n/a
SWS Group (Ireland)	Ion Equity (Ireland)	Domestic	USD \$145 Million
The York Timber Organisation (S. Africa)	Black Economic Empowerment (S. Africa)	Domestic	USD \$15 Million
Wellborn Forest Products (US)	Linsalata Capital (US)	Domestic	n/a
Western Pacific Wood Preservers (Canada) Western Cleanwood Preservers (Canada) Alberta Wood Preservers (Canada) Eastern Wood Preservers (Canada) Quebec Wood Preservers (Canada)	CanWel Holding Partnership (Canada)	Domestic	USD \$34 Million





Emerging Markets

- China is having a significant impact on the world markets
- Rapidly becoming the world's largest exporter of forest products
- World's number one importer of logs (softwood and hardwood)
- China's furniture exports have grown at a rate of 34 percent and rapidly becoming the largest MFB
- Competition from low-priced Chinese wood products is leading to trade disputes
- As China lowered its tariff on forestry imports, foreign companies have been striving to tap the huge market
- Lower labour costs make it attractive
- What about Russia – who will make the move into Russia in a big way?



Long-Term Competitiveness

- Tapping into emerging markets
- Innovation- Opportunities for vertical integration, and the potential to establish major new wood-product plants to service domestic and regional markets.
- Canada has longer, well-developed infrastructure compared to many global companies
- Canada has one of the lowest international business costs compared to the G-7 countries
- Canada has a large portion of government owned forests, which is in contrast to European countries and the United States where the majority of forests are privately owned
- European Forest Acts place much of the responsibility for sustainable forestry on individual forest owners
- Canada has the largest certified area of forests



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