

# Global Lumber Competitiveness: Where Does the B.C. Interior Fit?

COFI

Prince George BC – April 12, 2007

By:

Russell Taylor



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# Presentation Outline

- 1. Global Perspectives**
- 2. Europe**
- 3. Russia**
- 4. China**
- 5. Japan**
- 6. Global Lumber Benchmarking Summary**

# Introduction to: International WOOD MARKETS Group

- We are wood products industry consultants and we assist companies around the world to develop operational, marketing & business strategies.
- We are known as global market & industry experts/analysts on timber, lumber, panels & many millwork products sold in the U.S. market & key export markets
- We produce Multi-Client Reports: **Europe & Russia; Clearwood Pine; Global Lumber Benchmarking; The China Book; WOOD Markets 2000, 2002 & 2006; & the WOOD Markets Monthly Report**

# WOOD Markets' Multi-Client Reports

## EUROPE & RUSSIA WOOD PRODUCTS INDUSTRY TRENDS & OUTLOOK

Strategic Assessment of the European & Russian Industries and Their New/Entrepreneurial Business Models

AVAILABLE AUGUST 2003

Prepared by R.E. Tyler & Associates Ltd.  
Published by International Wood Markets Research Inc.



### FEATURING:

- Benchmarking of Log and Lumber Production Costs
- Analysis of Current European & Russian Business Cases
- A Strategic Look at Expanding Capacity in Europe and Western/Eastern Russia
- Outlook on Log and Lumber Exports to the U.S. and Asia
- Review of the Current Status of Europe's Wood Products Industry
- Assessment of Potential Risks of Doing Business in Russia



From the publishers of WOOD MARKETS MONTHLY INTERNATIONAL REPORT, WOOD Markets 1996, 2000 & 2002 and many other strategic industry reports

## 2006 EDITION WOOD MARKETS

The Solid Wood Products Outlook • 2006 to 2010

A GLOBAL MARKET PERSPECTIVE WITH A DETAILED ANALYSIS OF NORTH AMERICA

- COVERING lumber, panels (plywood, OSB, MDF, particleboard) and timber
- FEATURING an in-depth analysis of selected U.S. end-use lumber products & market segments
- INCLUDING an analysis of international trade and major importing/exporting countries

Prepared and published by  
International WOOD MARKETS Group Inc.

WOOD MARKETS

Incorporating: R.E. Tyler & Associates Ltd. INTERNATIONAL WOOD MARKETS RESEARCH INC.

LUMBER • PANELBOARDS • TIMBER • ENGINEERED WOOD • ECONOMICS • MARKETS • FORECASTS

## GLOBAL LUMBER/SAWN WOOD COST BENCHMARKING REPORT

### Featuring:

- A profile of the major sawn wood-producing regions in North America, Europe and the Southern Hemisphere
- Benchmarking of log costs, sawmilling costs, lumber revenues and margins for over 25 key countries or regions
- Cost summaries and analyses based on information gathered from over 200 sawmills
- Enhancements for this year include a breakout of the U.S. West Coast into two regions and Eastern Canada into three separate regions



2006 Basis



Available June 30, 2007



## WOOD MARKETS

MONTHLY INTERNATIONAL REPORT

VOLUME 11, NUMBER 1 • FEBRUARY 2006

Featuring Lumber, Panels and Wood Products Analysis

### Global Competitiveness Low-Cost Labor Regions Winning

In many finished products (such as furniture, cabinets, flooring, moldings and doors) and some commodities (like plywood), low labor rates provide a competitive advantage. This has been spectacularly evident in the U.S. in terms of furniture imports from China, and also in plywood and moldings shipments from Brazil and Chile. The effective competitiveness of China versus Canada and the U.S. is very evident (Figure 1). Essentially, countries like China and Vietnam can employ forty to fifty workers for the price of one North American worker. As an illustration in our "China Book" report, countries like China are now incorporating state-of-the-art capital with low labor rates to achieve the lowest production costs in the world. It's, depending on your industry, beware!



### WHAT'S INSIDE

- Analysis
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- Global Statistics
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### GLOBAL PRICE TRENDS



MARKETS • PRODUCTS • ANALYSIS • RESEARCH • FORECASTS

## CLEARWOOD (PINE) LUMBER, MOULDING & MILLWORK SECTOR

OUTLOOK TO 2008

THIRD EDITION • Available December 2003

Prepared by R.E. Tyler & Associates Ltd.  
Published by International Wood Markets Research Inc.

R.E. Tyler & Associates Ltd. INTERNATIONAL WOOD MARKETS RESEARCH INC.

NEW TO THIS EDITION:  
RESULTS AND OUTLOOK OF U.S. INDUSTRY-WIDE SURVEY ON DISTRIBUTION CHANNEL DYNAMICS



### FEATURING:

- In-depth analysis for senior executives evaluating their corporate business strategies and options in the Clearwood sectors
- An overview of global plantation-pine timber and lumber supply-side dynamics
- A review of the strategic implications of domestic vs. offshore production and where it is consumed in the U.S. market
- A profile of moulding distribution channels and their market shares in various end-use sectors and products
- Five-year forecasts on U.S. supply, consumption and prices

## THE CHINA BOOK: Wood Products Industry and Market Review

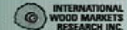
Strategic Assessment of China's Growing Force as the World's Low-Cost Production Engine & Exporter

PREPARED AND PUBLISHED BY  
International WOOD MARKETS Group Inc.



NOW AVAILABLE

R.E. Tyler & Associates Ltd.



### FEATURING:

- A comprehensive overview of China's wood products industry and its global competitiveness
- Assessment of China's timber resources and imported raw material supply sources
- Timely analysis of China's evolving distribution system for softwood/hardwood products
- Chinese domestic market consumption and fit for foreign wood imports
- An overview of investment opportunities and insights on "Doing Business" in China



FIRST EDITION



We are leading the:

## 2007 China Plywood Industry Tour:

Will see and visit large scale hardwood plywood manufacturers that export to North America & Europe.

Will see mills utilizing a variety of domestic and imported species.

Will see mills ranging from moderately labor intensive to capital intensive.

When: April 15-21, 2007.

Format: 1 week tour starting in Shanghai

# We are leading: 2007 Siberia Mill & Industry Tour

Focus is on both softwoods & hardwoods, from forests, sawmills & plywood mills to finished product manufacturers in Siberia - especially those that are exporting (or what to export) to Europe, the Baltic States or the USA.

When: Sept 15-22, 2007  
Limited to: 1st 15 paid delegates

Our 4th Russian Industry Tour

We are organizing the  
4th Annual  
**WOOD MARKETS' International China  
Summit Conference**

**Qingdao, China  
(1 hour flight from Shanghai)**

**Sept 22-24, 2007**

**2-Day International Conference & Exhibit  
1-Day Industry Tour on a Variety of Products  
5-day tour on Chinese Plantations & Finished  
Products Factories to follow on Sept 25**

# Presentation Based on Travel & On-Going Research

- ◆ **Our extensive travels in the last 3 +/- years include visits to 25 countries, including:**
  - **Southern Hemisphere:** Australia, New Zealand, Chile, Brazil, South Africa
  - **Asia:** Japan, China, S. Korea, Taiwan, Vietnam
  - **Europe:** Sweden, Finland, Belgium, Germany, Austria, Czech Rep., Romania, Lithuania, Latvia, Estonia, W. Russia, Siberia, E. Russia
  - **USA/Canada:** extensive, regular visits
- ◆ **On-going Research & Existing Reports:**
  - **WOOD Markets Newsletter & WOOD Markets '06**
- ◆ **Multi-Client Reports: Europe & Russia; Clearwood Pine; Global Cost Benchmarking; The China Book**

# 1. Global Competitive Perspectives

The regions in the world that have the greatest potential to impact the **solid wood business** in North America (and its offshore markets) are:

- **Europe** – in softwood lumber (studs, dimension, boards), engineered wood, OSB, birch plywood.
- **Russia** – in logs + softwood lbr, hardwood plywood
- **China** – in finished products (furniture, flooring, doors, mouldings) as well as in plywood, MDF.
- **Southern Hemisphere** - from plantation pine & eucalyptus & in “clear” & value-added (moldings, doors, boards) + lumber, plywood, MDF, OSB
- **B.C.**= restricted to 3 markets: Canada, USA, Japan

# Too Much Supply or Not Enough??

There was a **general global oversupply** of (lower cost) “wood” with expanding output from the mid-1990s to the mid-2000s:

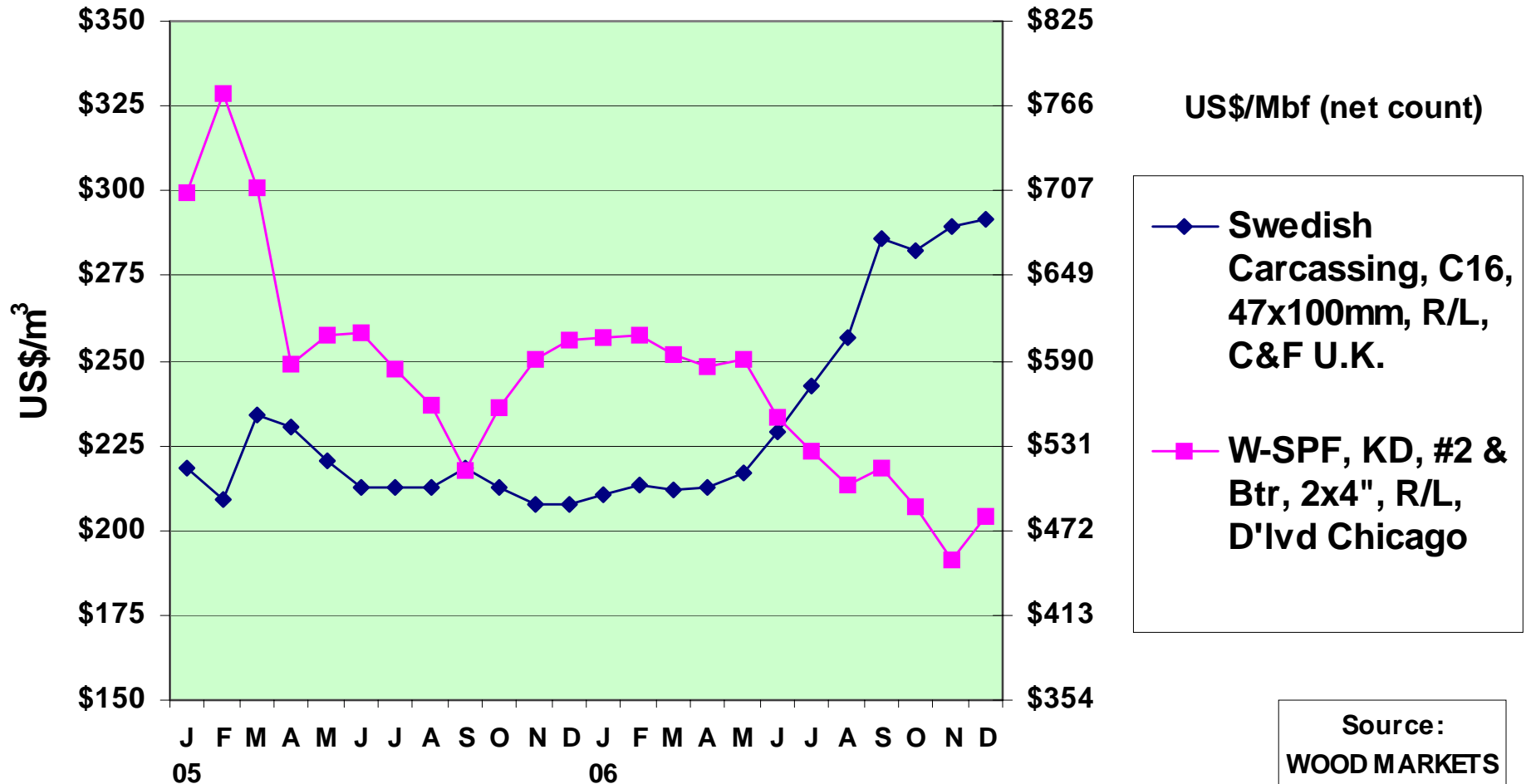
- ◆ From virtually all regions in Canada & USA;
- ◆ From many countries in Europe - including the Scandinavia, Germany, France, Austria, Baltics, E. Europe and Russia;
- ◆ From Plantations – Southern Hemisphere softwood pine & tropical & temperate hardwoods;
- ◆ From re-exports from China;
- ◆ Looking ahead, wood supply may be tightening from ownership changes (TIMOs), transportation costs, and from historic low margins.

## 2. EUROPE: Market Issues & Trends

- **Current market in Europe = red hot**
- **Prices have increased in all lumber products, mainly from a log shortage in the spring and increasing demand in most countries (especially Germany)**
- **Producers are faced with soaring log prices, as rising state-of-the-art sawmilling capacity has increased log demand!**
- **U.S. lumber imports from Europe will increase again starting in 2008!**

# Prices: Europe Soars; US Plunges in '06

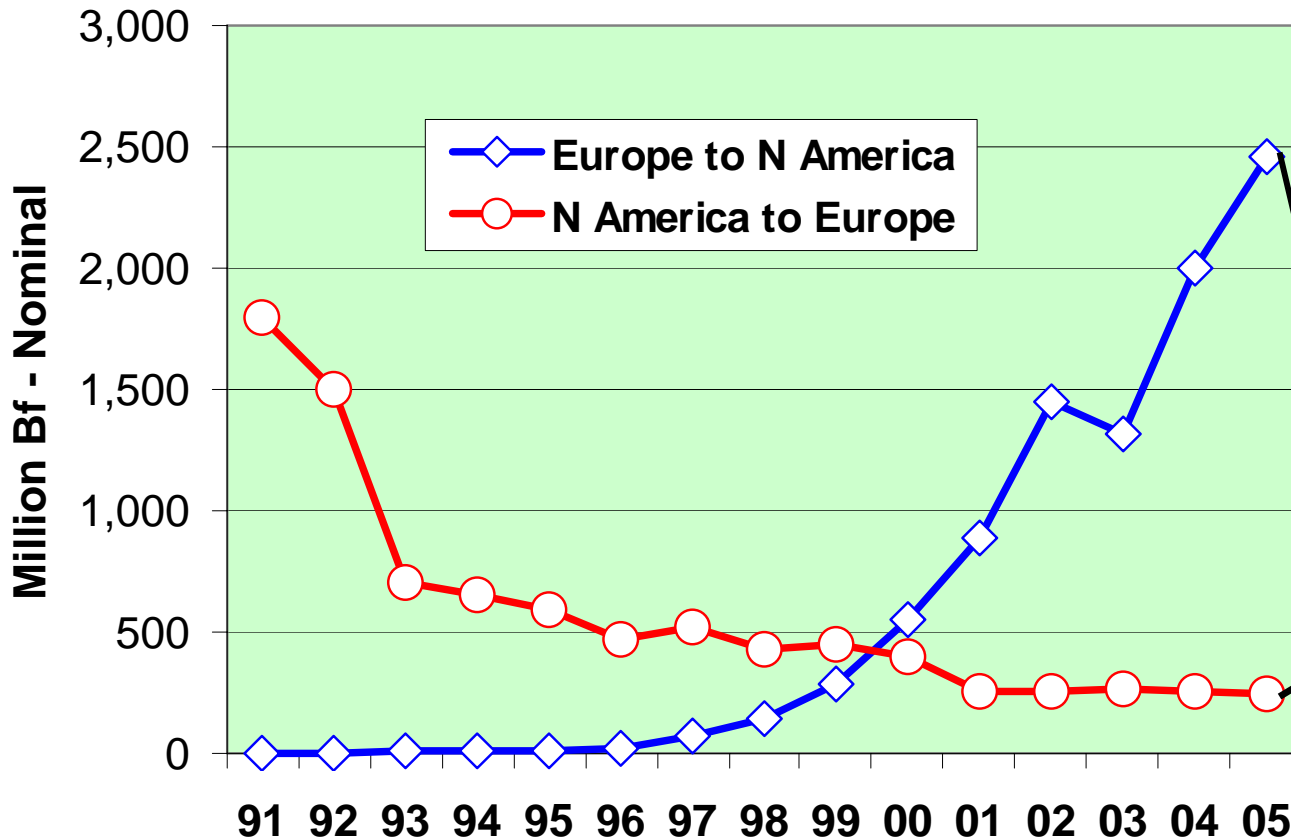
## Europe vs. USA Lumber Price Trends



Exports from Europe Retreat; NA Exports to N. America?

# Europe Exports To USA Gaining; N. America Exports to Europe Sliding

## Lumber Exports Between N. America & Europe



Source: WOOD Markets

**1993 = Ban on  
Green  
Canadian  
Lumber in  
Europe**

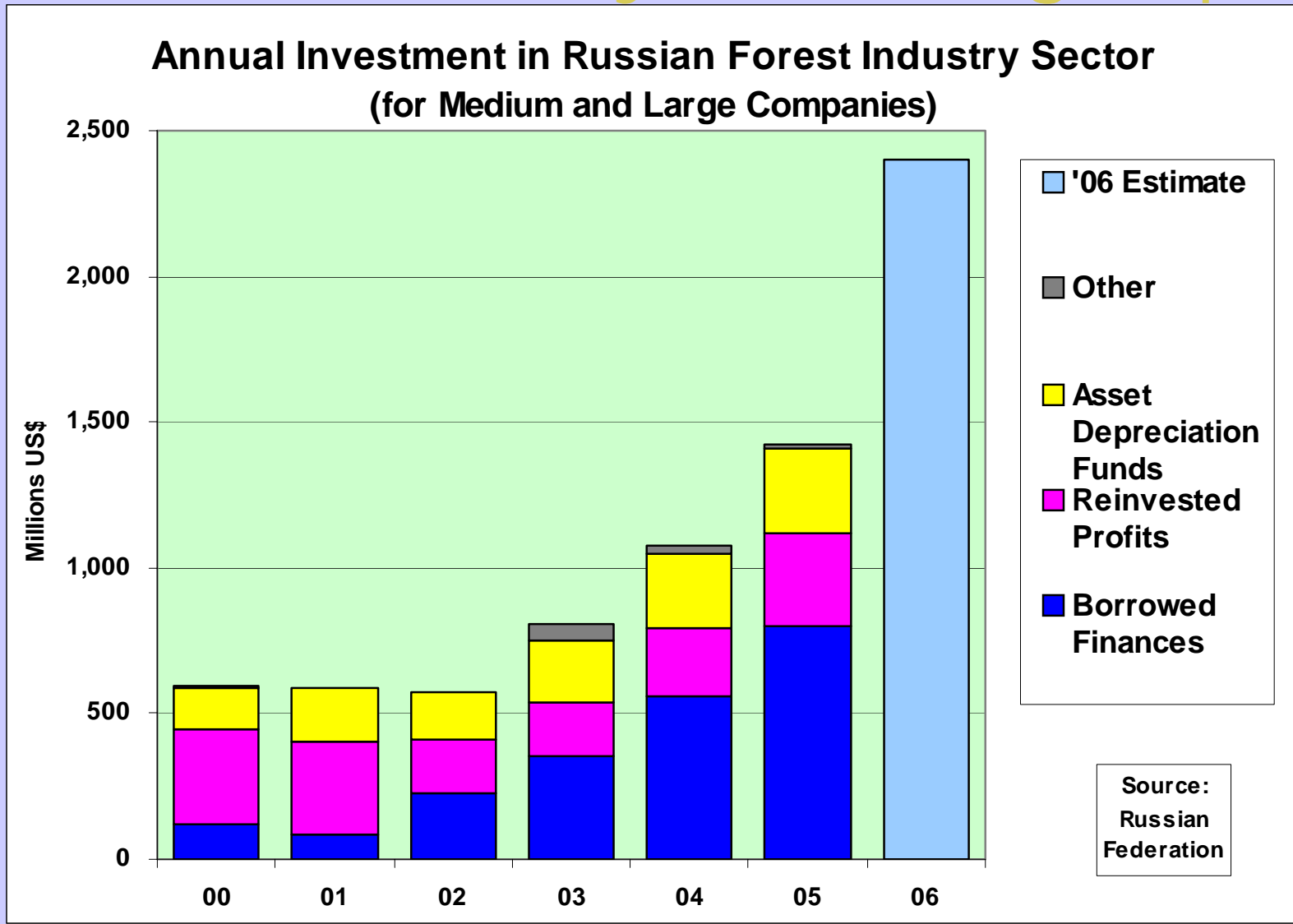
**1995 = Start of  
the SLA & US  
Quotas for  
Canada!**

**2002 = Start of  
US CVD & AD**

### 3. RUSSIA: Timber & Sawmilling Industry Initiatives

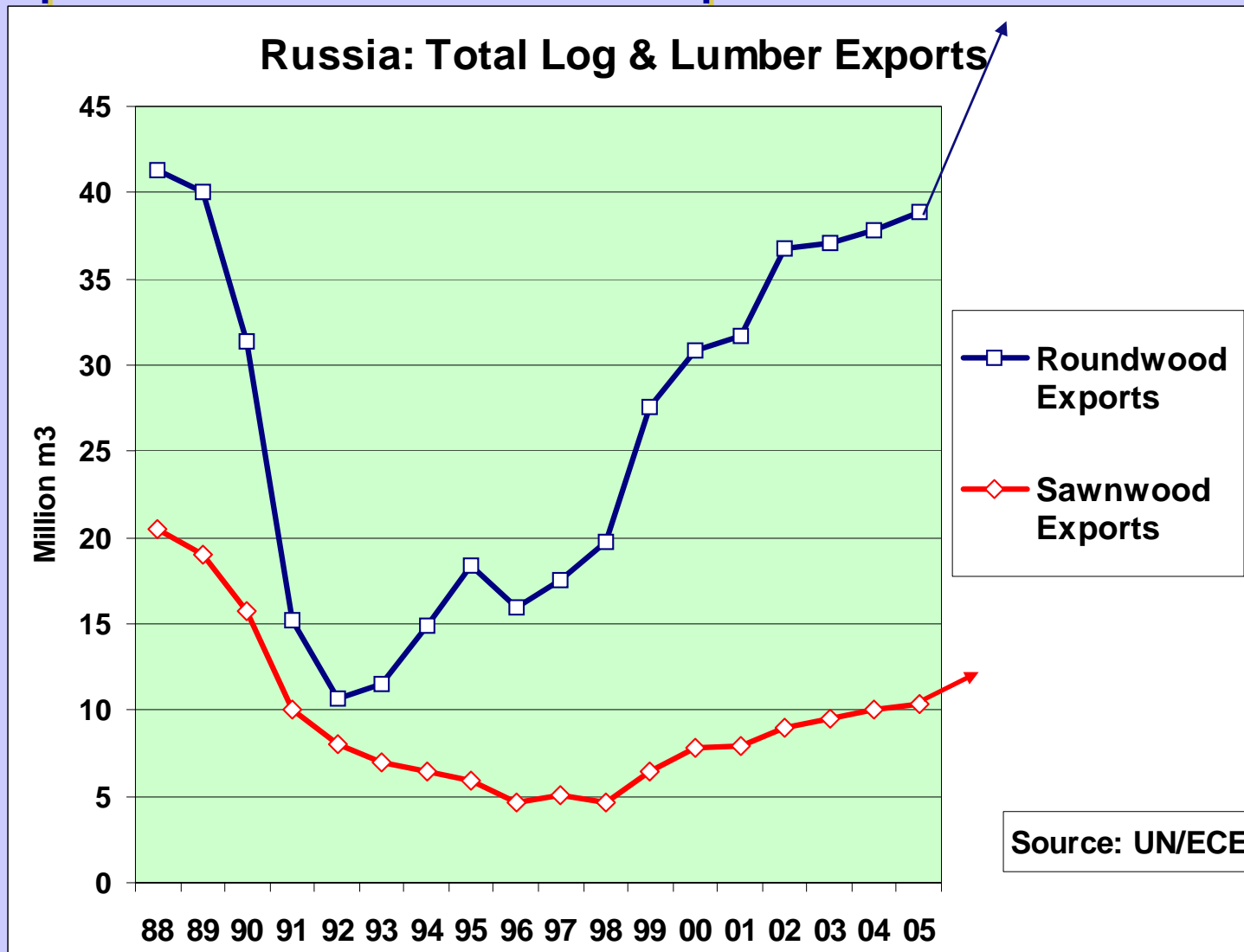
- ◆ Political climate stabilizing – sort of ...
- ◆ Putin has the required majority government to push through new reforms, including an attempt to get rid of the oligarchs and to increase foreign investment.
- ◆ New Forest Code will be the basis for new domestic and foreign investment in wood products.
- ◆ Forest Leases for up to 49 years will be offered with stumpage rates of ~US\$0.25/m<sup>3</sup> to ~US\$5.00/m<sup>3</sup>\*.
- ◆ Log exports are still a very high margin business!
- ◆ Still many risks & uncertainties to new investments plus illegal logging issues.

# Russia is Steadily Attracting Capital



**Investment in Russia is expected to be US\$4 billion in 2007, especially when the IP-Ilim Pulp deal is factored in**

# Russia Exports Surging, especially to Japan, China, Europe & Middle East



# Russian Log Export Tax Schedule

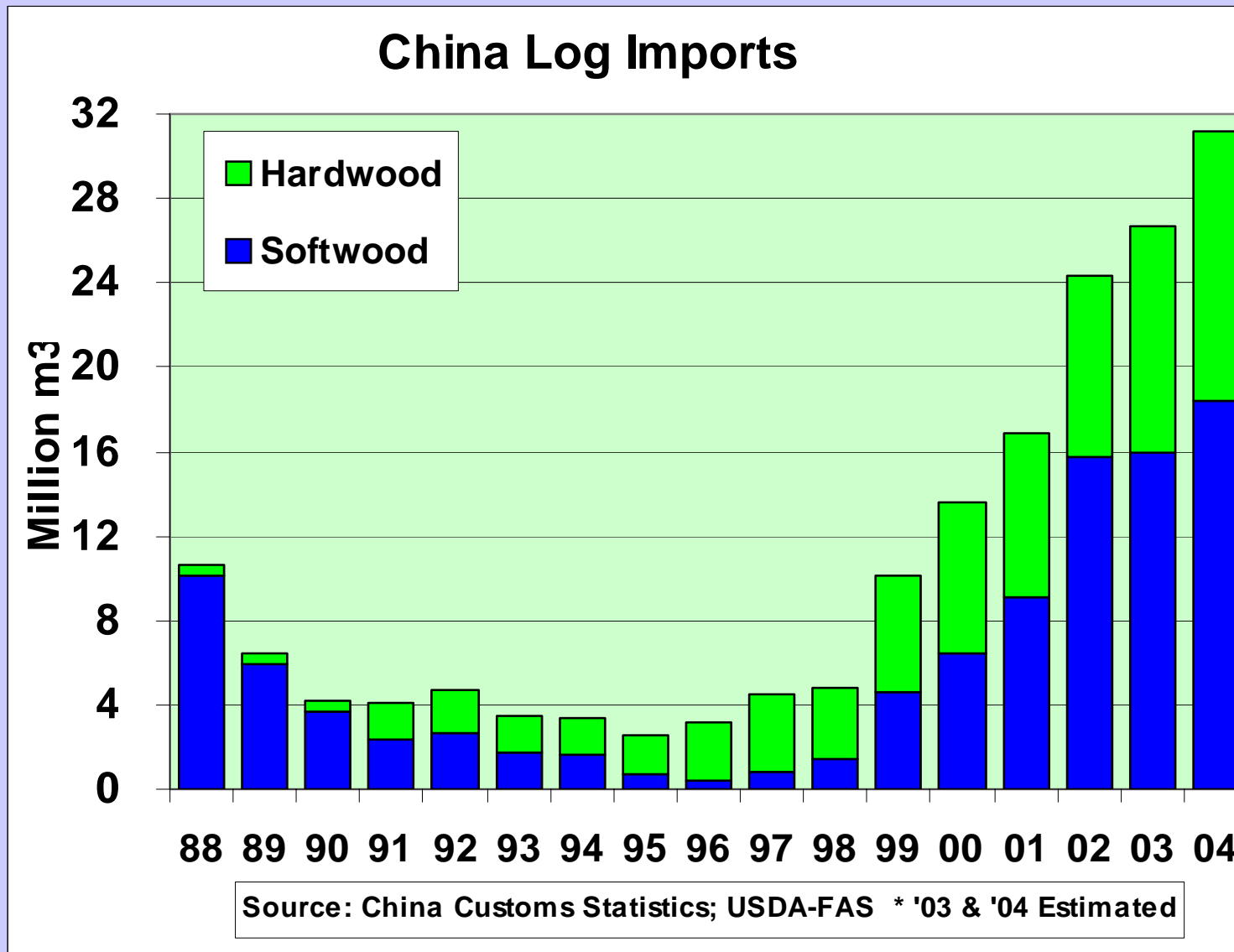
## Russian Log & Sawwood Export Tax Schedule & Key Export Markets

Products	Rate	Before						Finland	Japan	China
	Min. Amount	Jun. 1 2006	Jun. 1 2006	Jul. 1 2007	Apr. 1 2008	Jan. 1 2009	Jan. 1 2011	Imports 2006	Imports 2006	Imports 2006
Softwood logs	%	6.5%	6.5%	20%	25%	80%	80%			
	Euro/m3	2.5	4	10	15	50	50	7.0	4.9	18.1
Hardwood Logs (Oak, Beech, Ash)	%	20%	20%	20%	20%	40%	40%			
	Euro/m3	24	24	24	24	50	50		0.1	3.6
Poplar/Aspen	%		10%	10%	10%	80%	80%			
	Euro/m3		5	5	5	50	50	2.0		
Birch > 15 cm	%			20%	25%	80%	80%			
	Euro/m3			10	15	50	50			
Birch Logs <15 cm	%						10%			
	Euro/m3						5	7.0		
Semi finished products with bark thickness <15cm	%			10%	15%	50%	50%			
	Euro/m3			20	25	80	80			
Wood Chips	%	5%	5%	5%	5%	5%	5%	1.0		
Total (Million m3)								17.0	5.0	21.8

**If implemented, Russian investment will rise; log exports will fall; & global log prices could rise! BUT, there are complications!**

# 5. CHINA: Market Issues & Trends

# China's Surging Log Imports

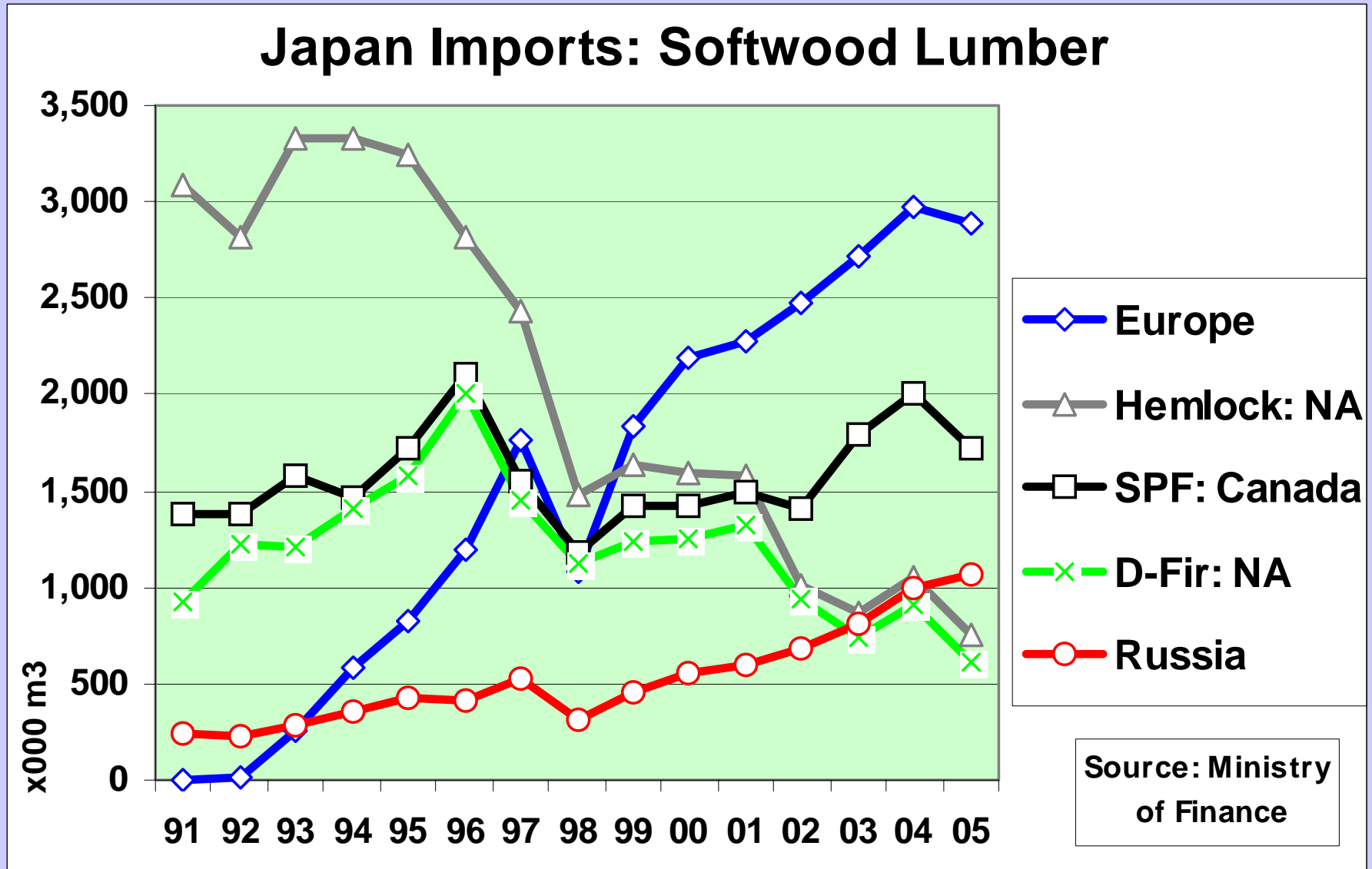


**68% of China's log imports are from Russia**

# Russia/China Fit in Global Markets

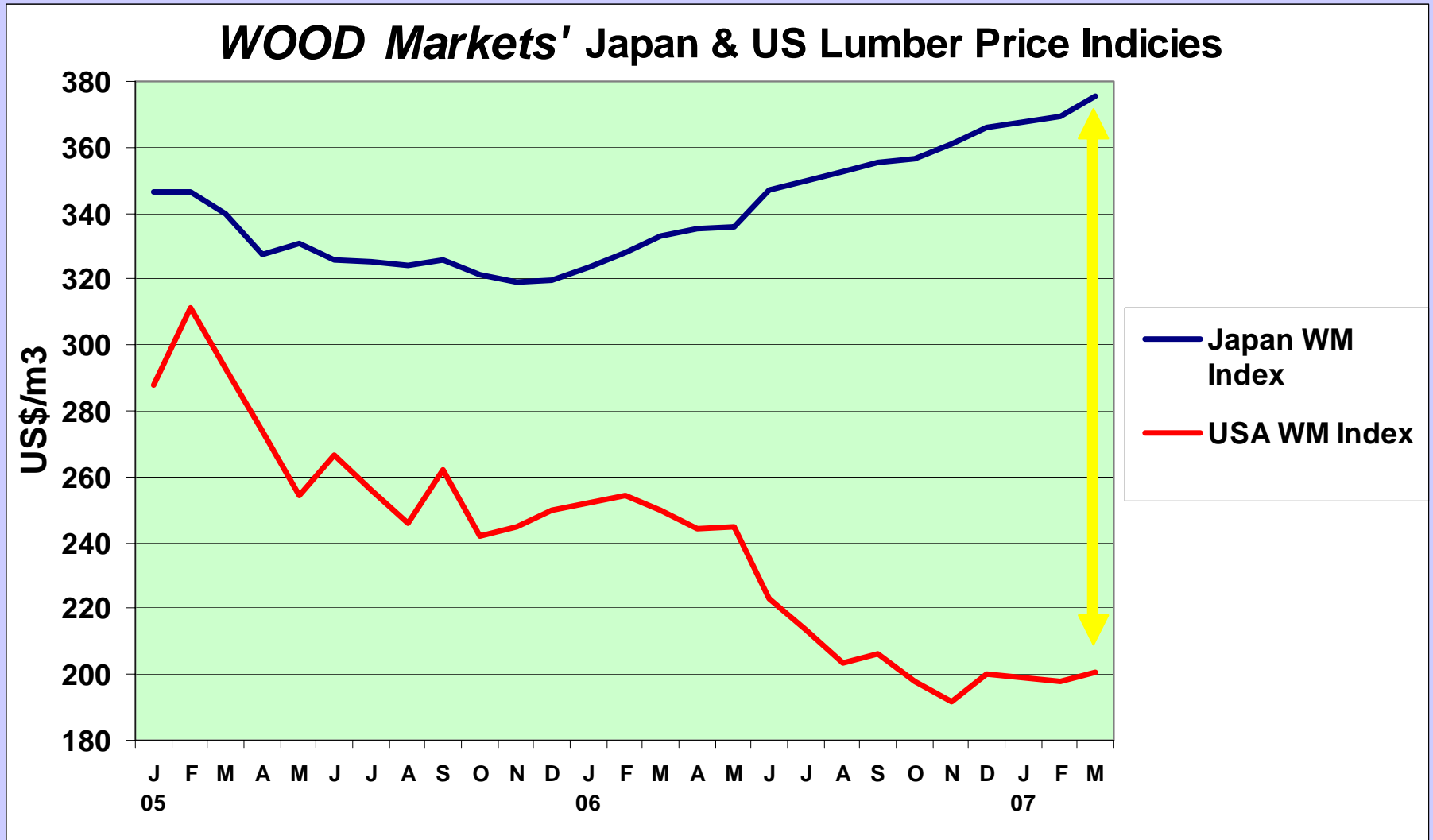
- China = largest log importer in the world.
- Russia = largest log exporter in the world.
- **China needs Russia; Russia needs China.**
- Putin government is aggressively increasing log export duties & reducing illegal logging!
- IF this occurs in part or as scheduled, China's processing industry would lose much of its raw material supply!
- Global raw material prices (logs, lumber, plywood, etc.) could soar and/or China's output could crash!
- **Need to key your eye on China & Russia!!**

# 5. JAPAN: Europeans Have Gained!



**No. America has Lost Market Share to Europe, Russia**

# Prices: Japan Also Increasing vs. USA



**Exports to Japan Steady at Higher Prices**

# GLOBAL LUMBER/SAWN WOOD COST BENCHMARKING REPORT



2004  
Basis

## Featuring

- A profile of the major sawn wood-producing regions in North America, Europe and the Southern Hemisphere
- Benchmarking of log costs, sawmilling costs, lumber revenues and margins for over 20 key countries or regions
- Cost summaries and analysis based on information gathered from over 200 sawmills
- Enhancements for this year include detailed information on China (and perhaps some other Asian regions), more detailed U.S. regional analysis and an examination of global competitiveness trends and issues

**AVAILABLE JUNE 2005**

PRICEWATERHOUSECOOPERS



INTERNATIONAL  
WOOD MARKETS  
RESEARCH INC.



## 6. Global Lumber Benchmarking Report:

### By Major Country

### 2004 Costs

# BC Competitive Position

**In the mid-1990s, the BC Coast was still competitive and the BC Interior was just starting to face higher costs!**

## In the 2000s:

- **Log Costs**
- **Sawmill Costs**
- **Revenue**
- **Margin (EBITDA)**

## BC Coast

= high end

= highest

= highest

= lowest

## BC Interior

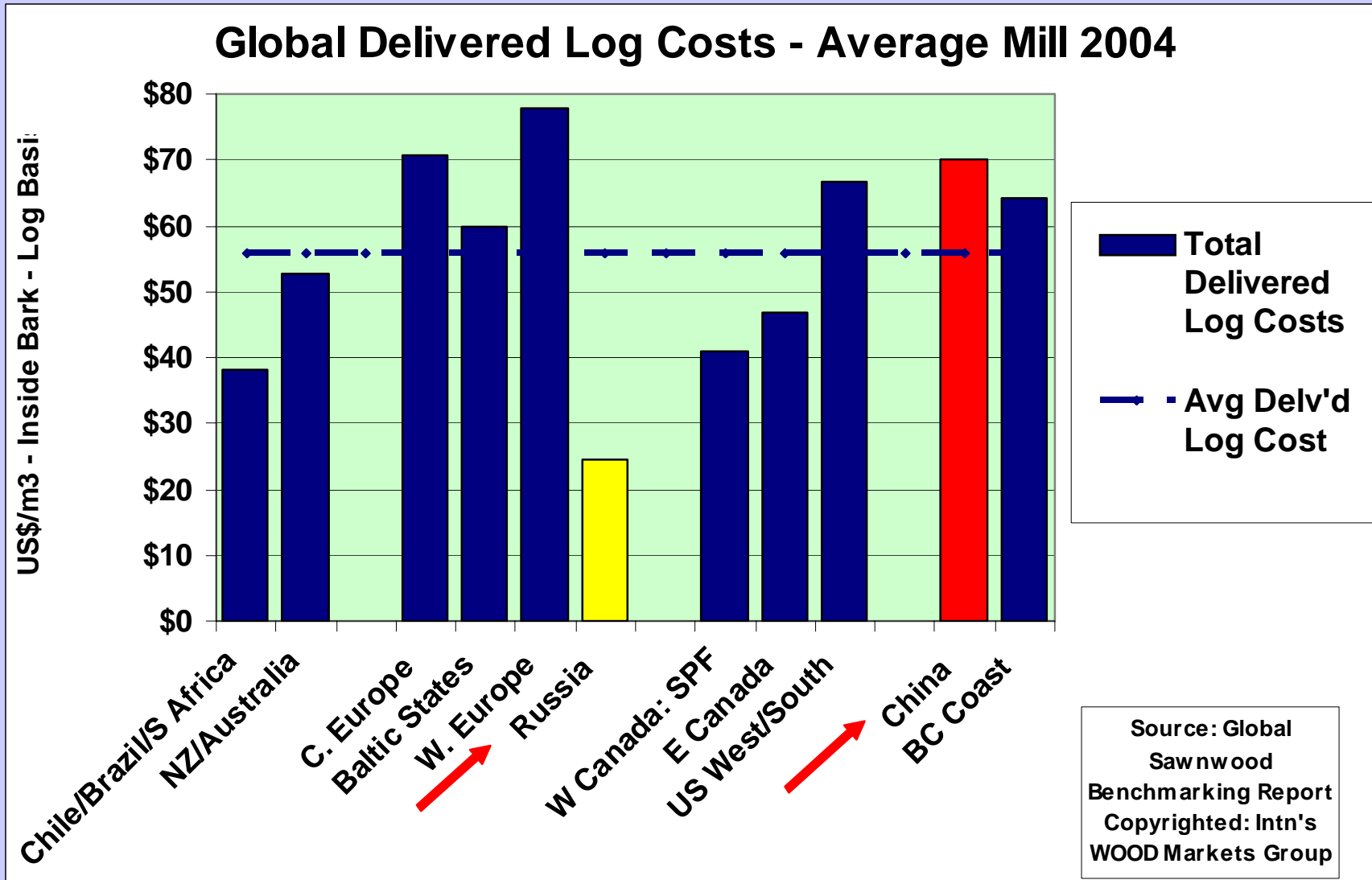
= low end

= low end

= moderate

= highest

# China vs. Russia Log Costs (2004)



**Russia has a key strategic advantage in log costs**

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2006  
Basis



Available June 30, 2007

**WOOD  
MARKETS**

PRICEWATERHOUSECOOPERS



# 7. Global Lumber Benchmarking Report (2007 Edition):

## Includes 27 Major Countries or Regions

## Full Report is Available July 2007

WOOD MARKETS  
Group

# BC Global Competitive Position

## In Q1 2007:

- **Log Costs**
- **Sawmill Costs**
- **Revenue**
- **Margin (EBITDA)**

## BC Interior Global Rank

= low end;

= low end; US West & E.  
Europe is lower

= low/moderate; lots of  
freight to markets!

= highest; Prairies is higher  
& US West is close by (but  
no one is making any \$)

# 8. Major Competitive Issues

## Global Timber Supply:

- Mountain Pine Beetle – short vs. long term
- Russian log export tax schedule – if implemented!
- Global warming (short winters, insects, fire...)
- Global timber supply now tightening? Prices Up?

## Market Requirements & Issues:

- Marketing MPB lumber vs. competitors (Europe)
- Export tax to the U.S. market.
- Currency and economic fluctuations.
- Use of technology to improve product quality & yields, increase scale, and lower unit costs.

THANK YOU!

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