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

COFI

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By:

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Presentation Outline

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

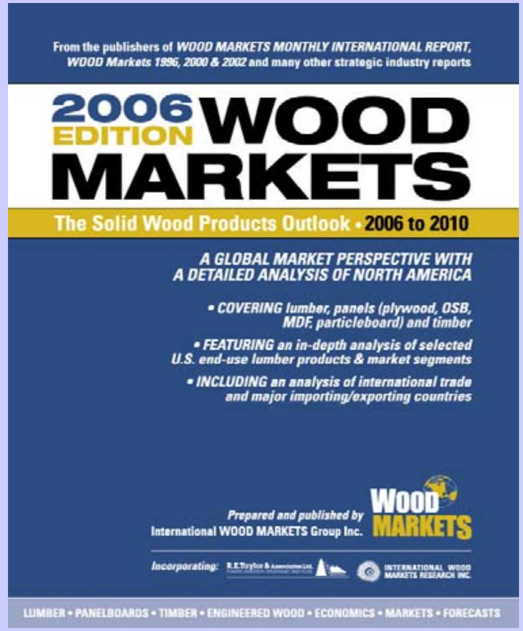
Introduction to: International WOOD MARKETS Group

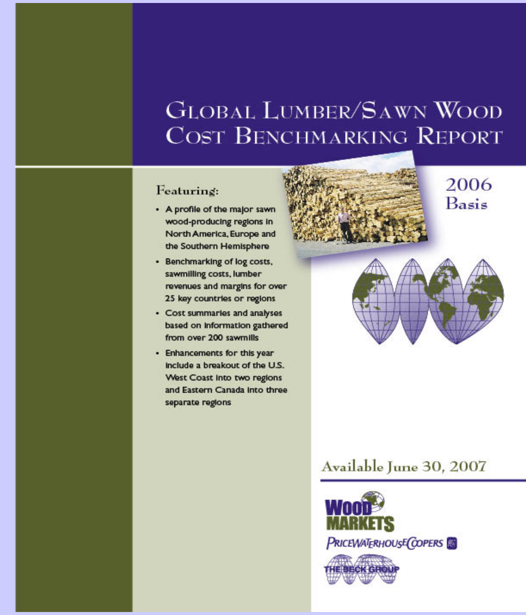
- **We are <u>wood products industry consultants</u> and we assist companies around the world to develop operational, marketing & business strategies.**

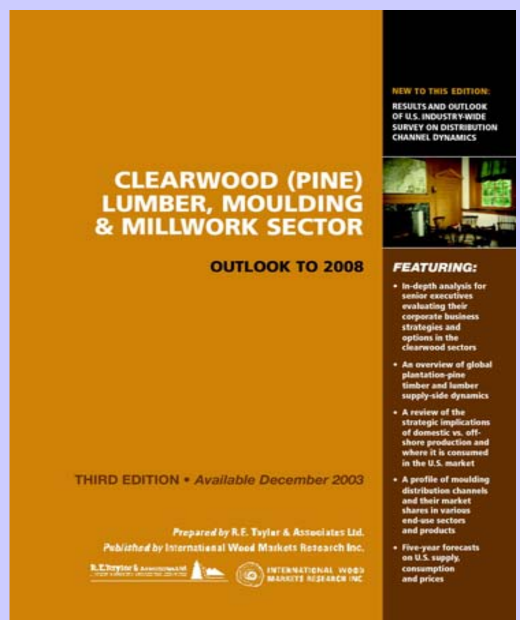
- **We are known as <u>global market & industry experts/analysts</u> on timber, lumber, panels & many millwork products sold in the U.S. market & key export markets**

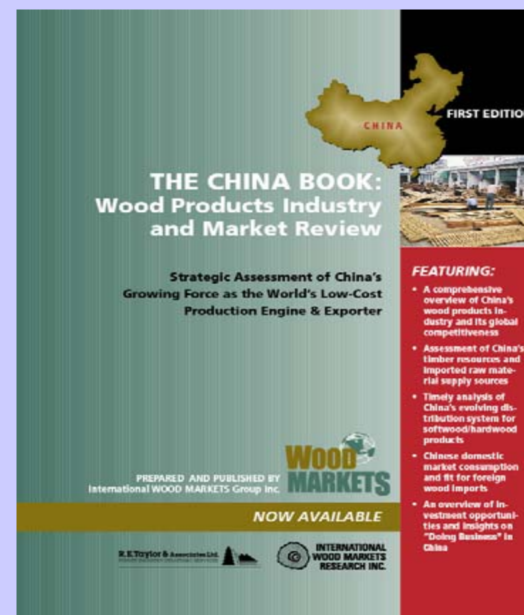
- **We produce <u>Multi-Client Reports:</u> Europe & Russia; Clearwood Pine; Global Lumber Benchmarking; The China Book; WOOD Markets 2000, 2002 & 2006; & the WOOD Markets Monthly Report**

WOOD Markets' Multi-Client Reports









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 – <u>in logs</u> + 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??

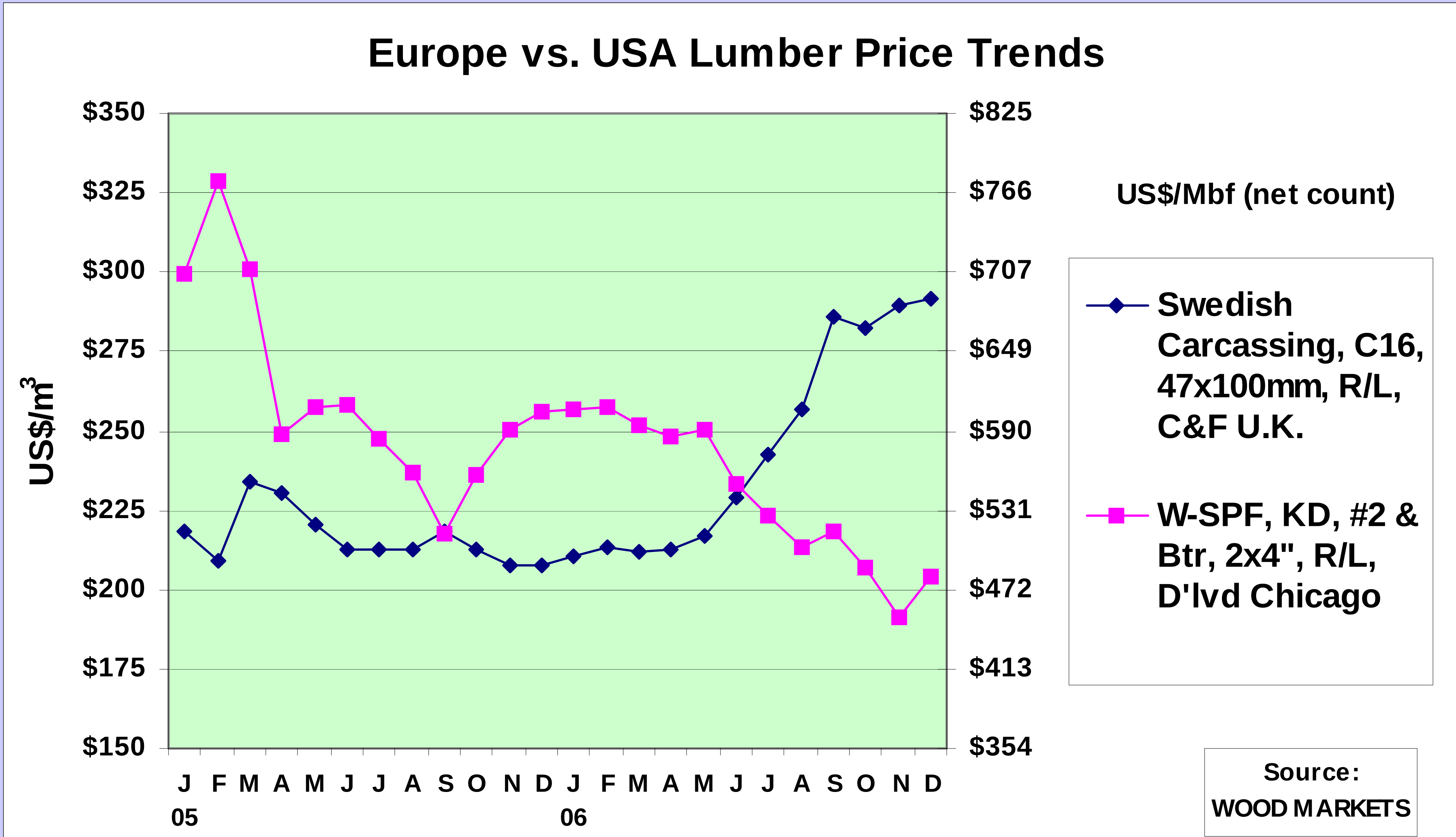
There was a **general global oversupply** of (lower cost) “wood” with expanding output from the mid-1990s to the mid-2000s:

- 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

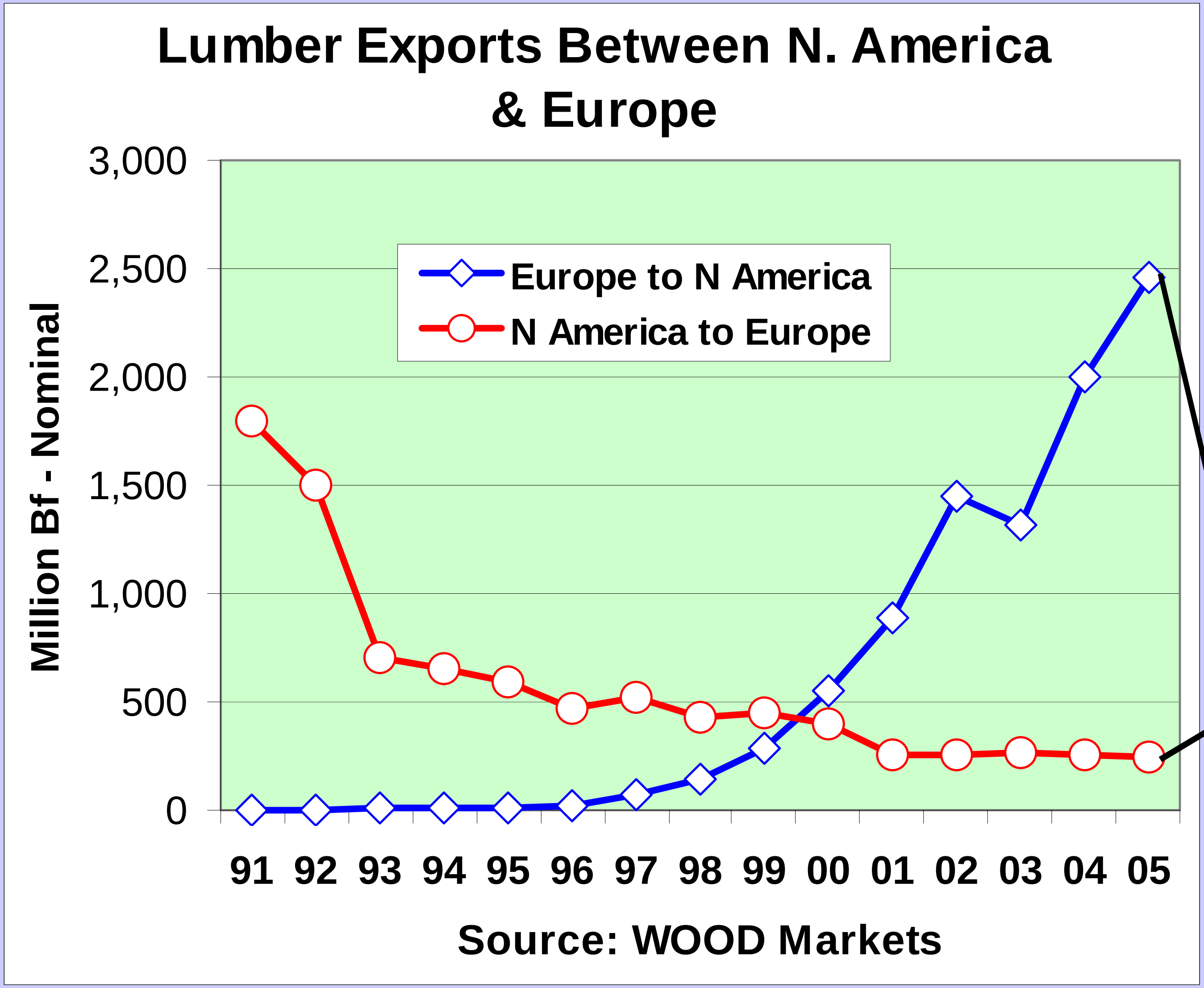
- **Current market in Europe = red hot**
- **Prices have increased in all lumber products, mainly from a log shortage in the spring and increasing demand in most countries (especially Germany)**
- **Producers are faced with <u>soaring log prices</u>, as rising state-of-the-art sawmilling capacity has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

Prices: Europe Soars; US Plunges in '06



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

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



1993 = Ban on Green Canadian Lumber in Europe

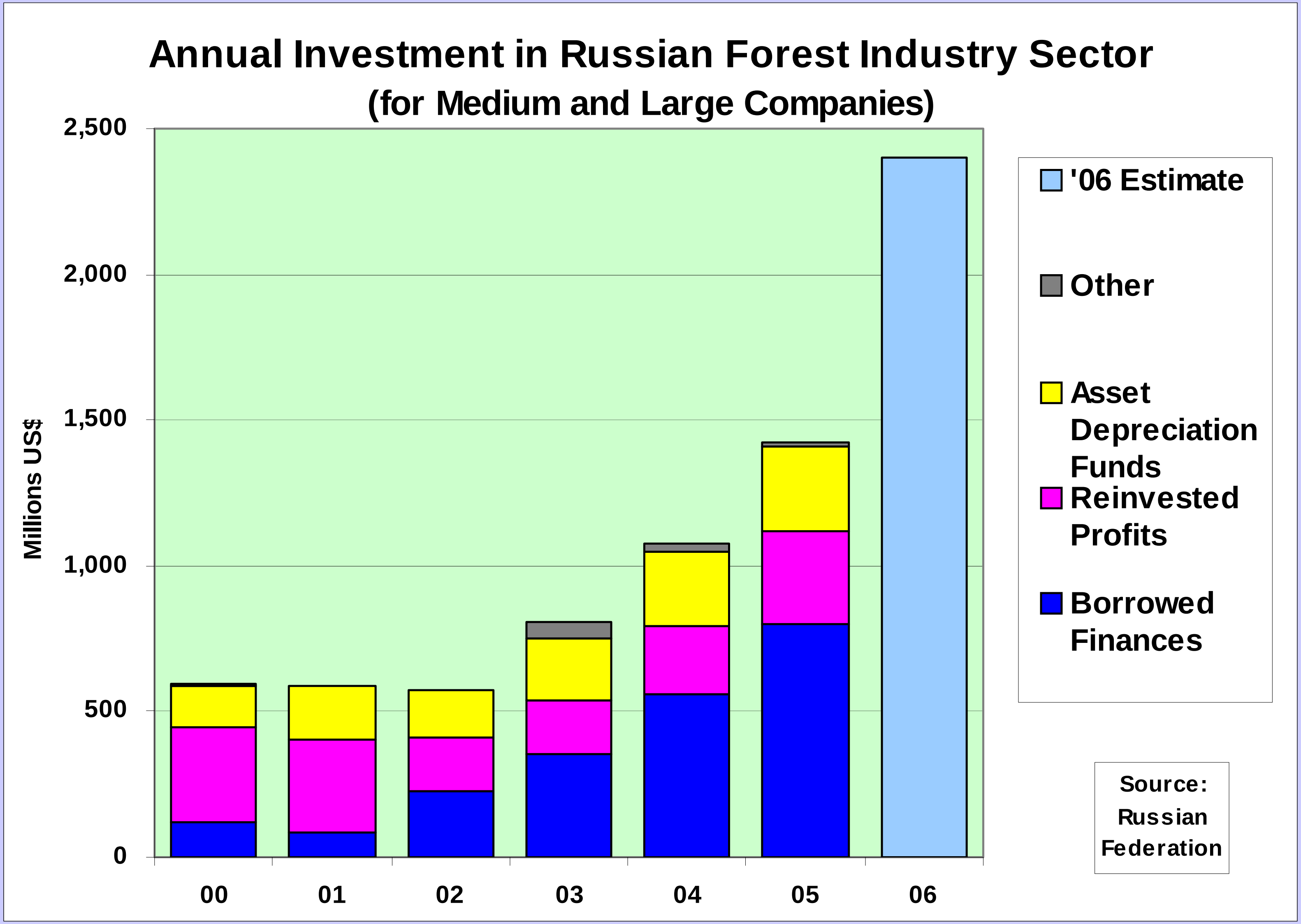
1995 = Start of the SLA & US Quotas for Canada!

2002 = Start of US CVD & AD

3. RUSSIA: Timber & Sawmilling Industry Initiatives

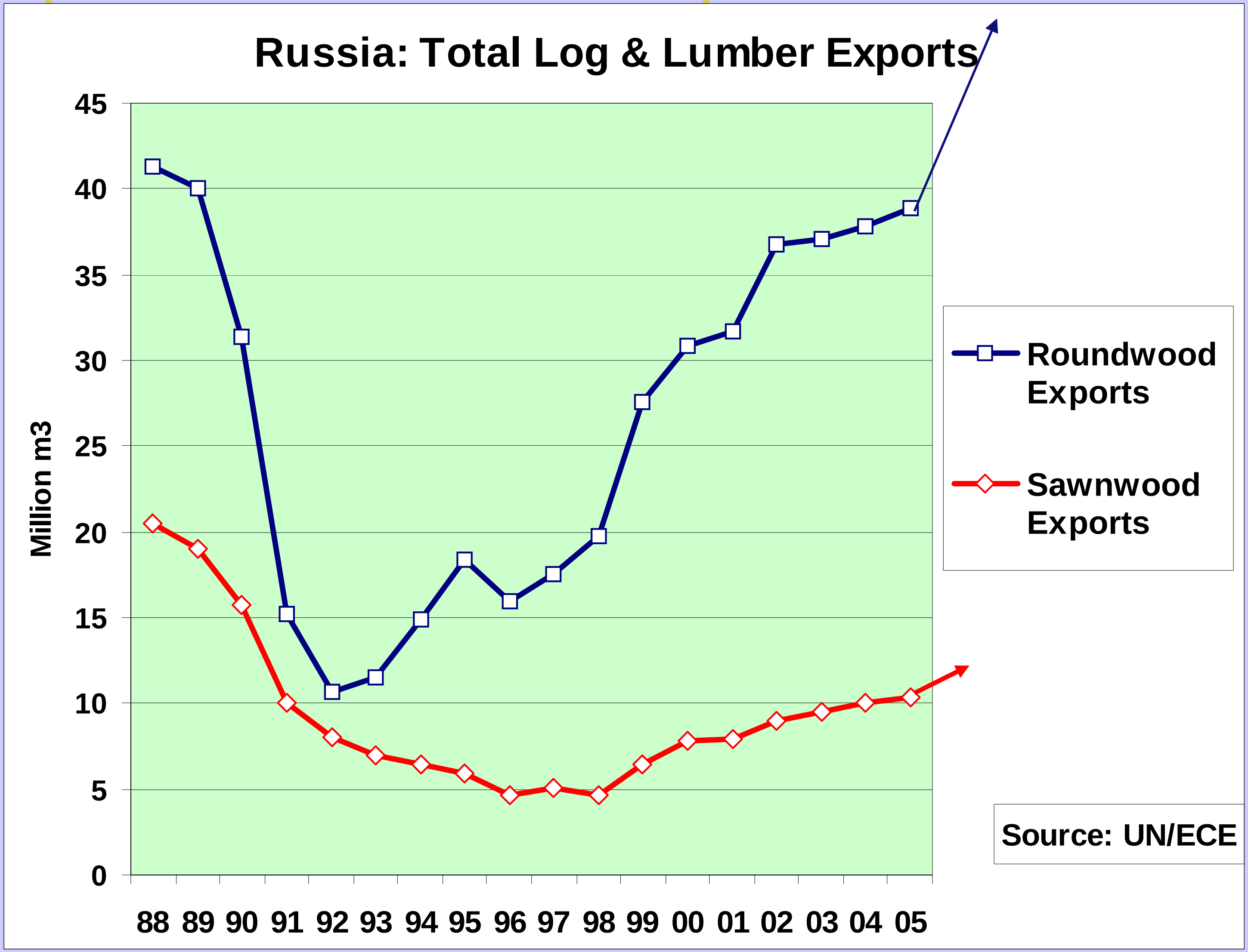
- Political climate stabilizing – sort of ...
- Putin has the required majority government to push through new reforms, including an attempt to get rid of the oligarchs and to increase foreign investment.
- New Forest Code with be the basis for new domestic and foreign investment in wood products.
- Forest Leases for up to 49 years will be offered with stumpage rates of ~US$0.25/m3 to ~US$5.00/m3*.
- 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

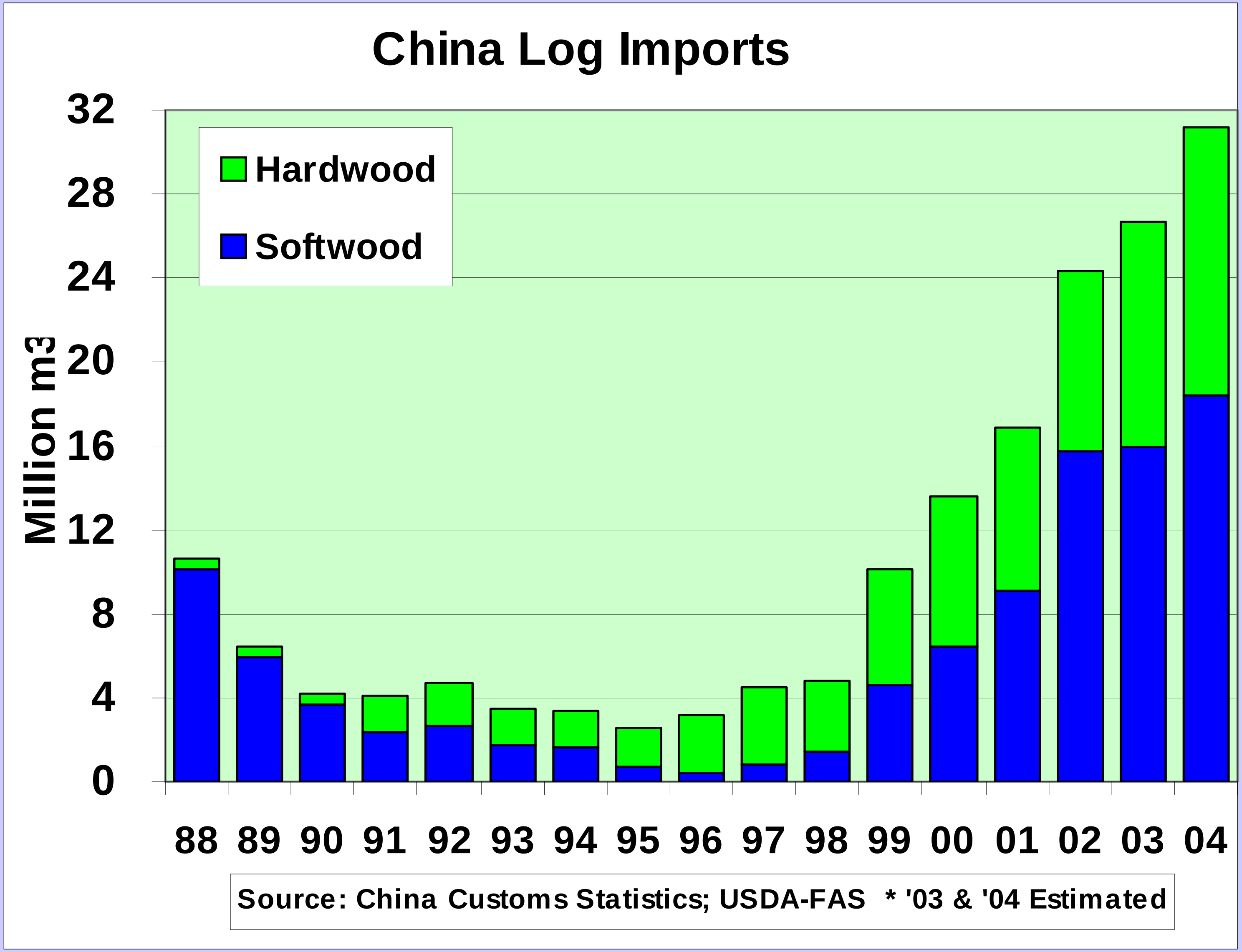
Russian Log & Sawnwood Export Tax Schedule & Key Export Markets

Products	Rate / Min. Amount	Before Jun. 1 2006	Jun. 1 2006	Jul. 1 2007	Apr. 1 2008	Jan. 1 2009	Jan. 1 2011	Finland Imports 2006	Japan Imports 2006	China 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

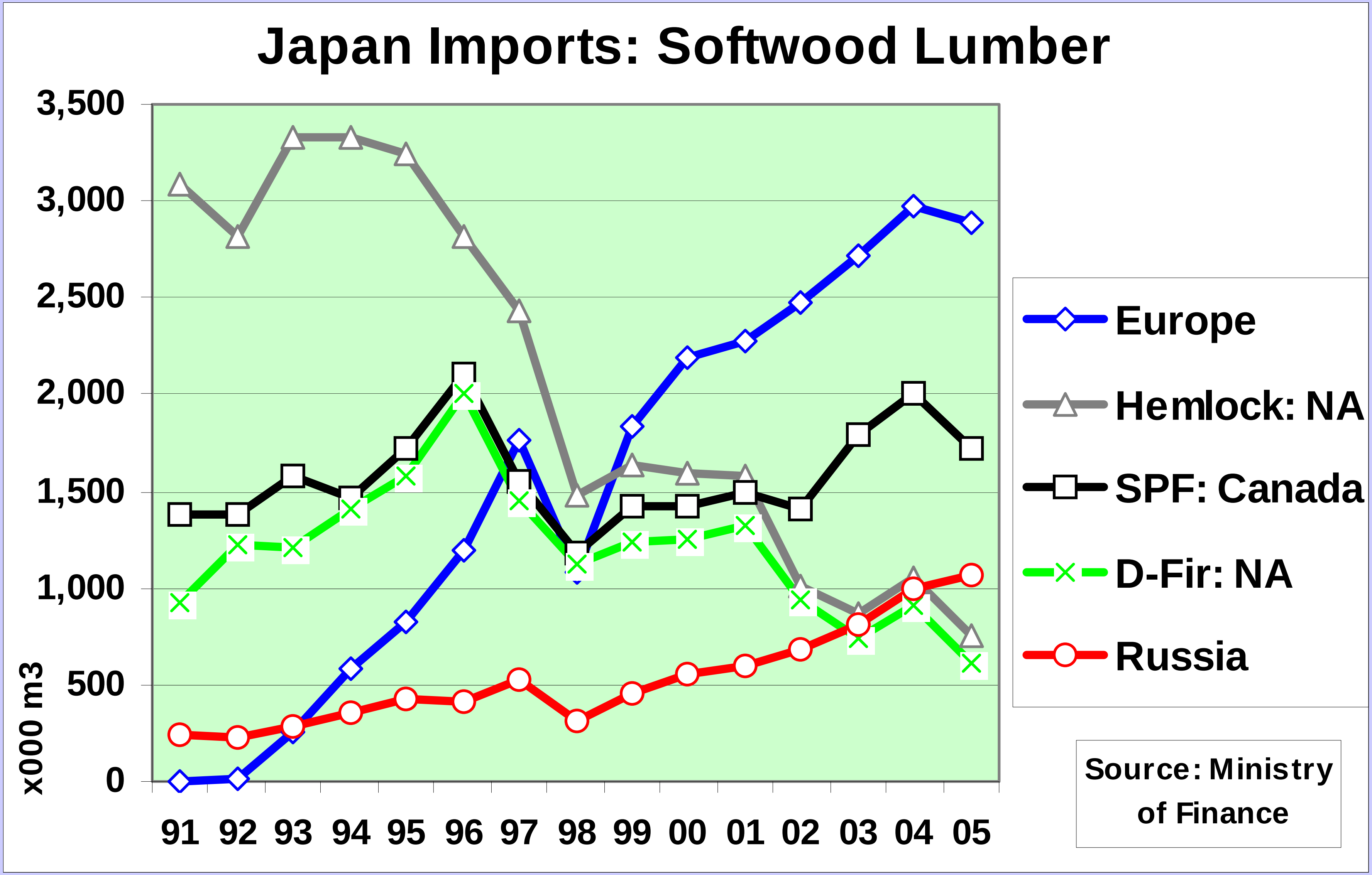


68% of China's log imports are from Russia

Russia/China Fit in Global Markets

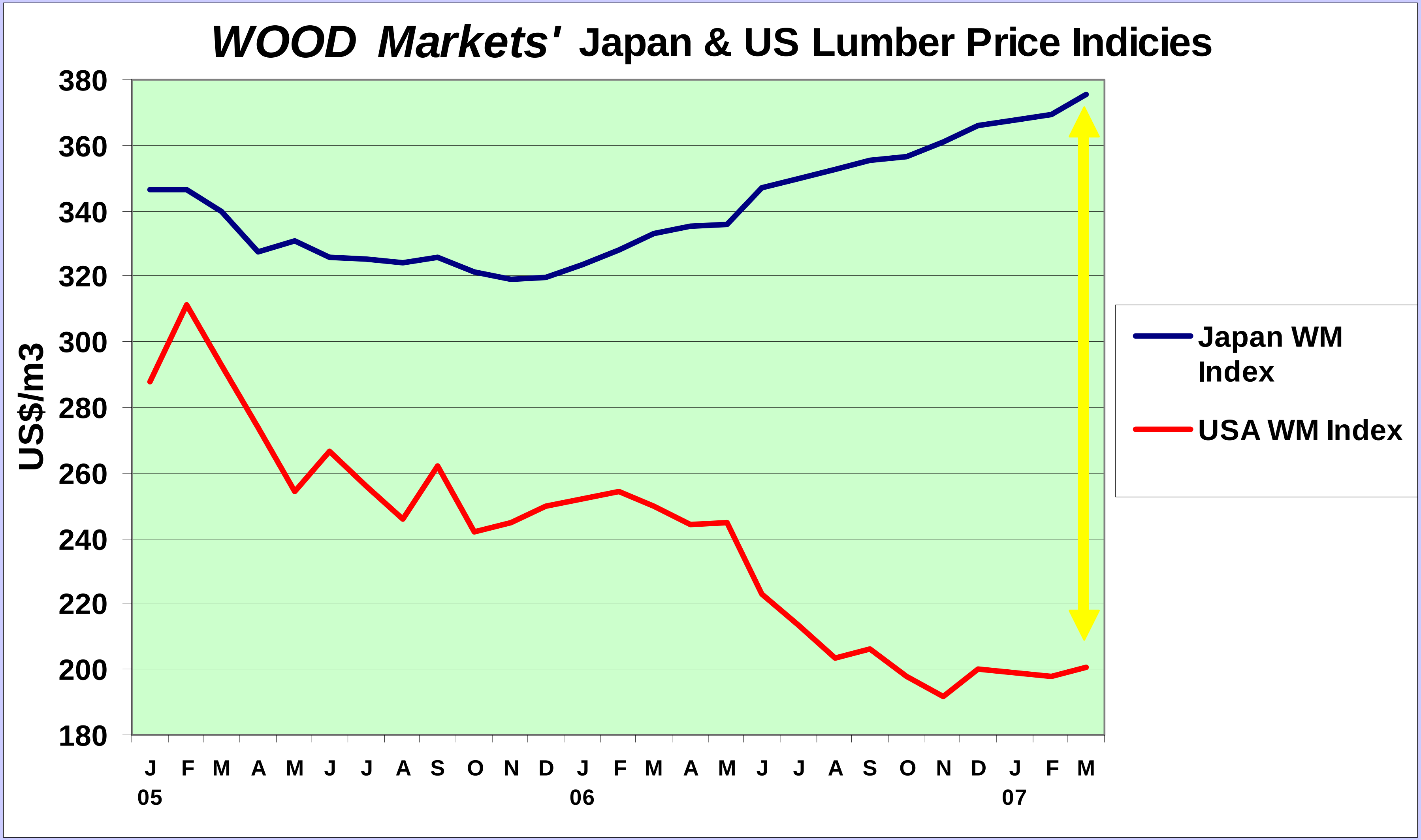
- **China = largest log importer in the world.**
- **Russia = largest log exporter in the world.**
- **China needs Russia; Russia needs China.**
- **Putin government is aggressively increasing log export duties & reducing illegal logging!**
- **<u>IF this occurs in part or as scheduled</u>, China's processing 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!

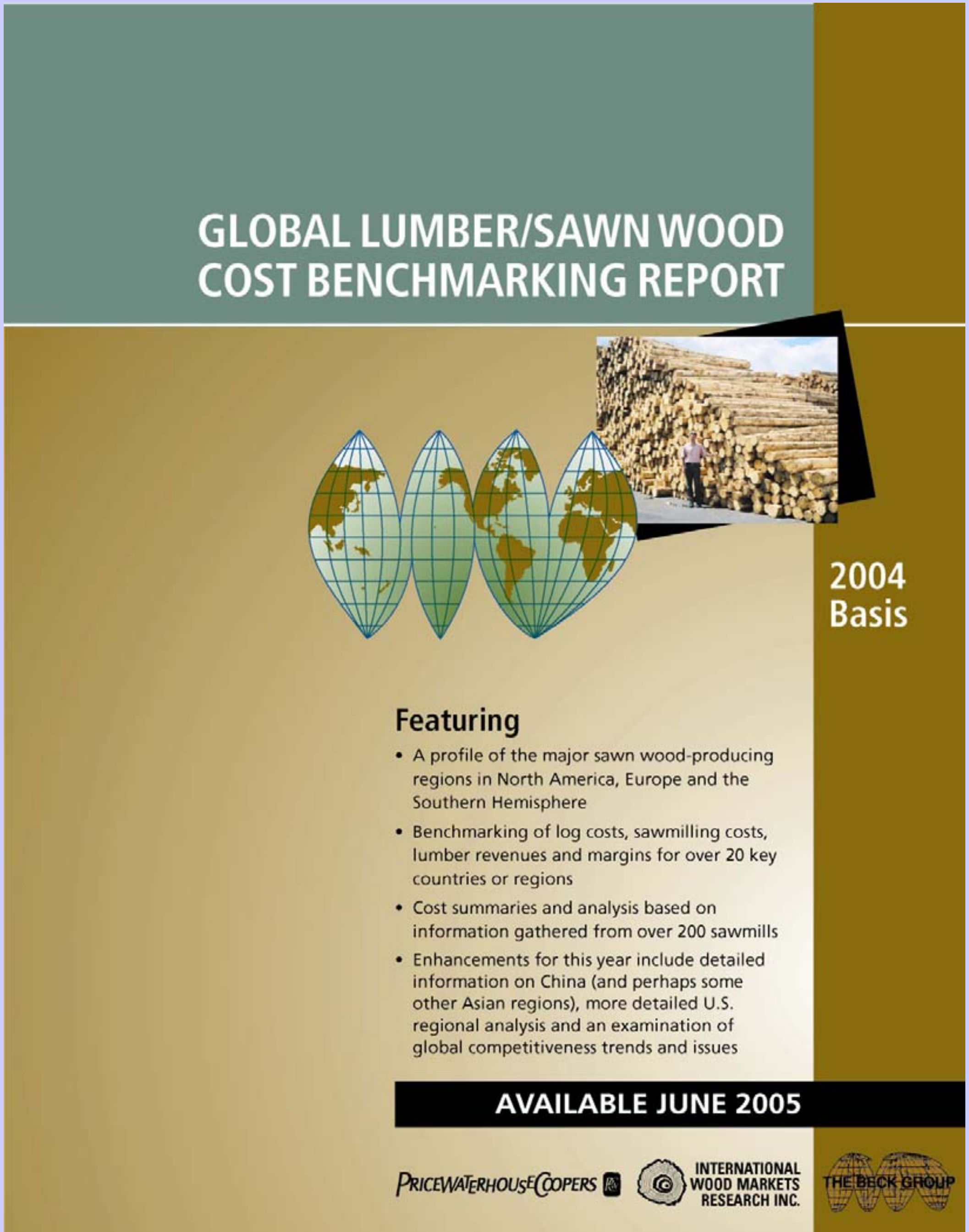


No. America has Lost Market Share to Europe, Russia

Prices: Japan Also Increasing vs. USA



Exports to Japan Steady at Higher Prices



6. Global Lumber Benchmarking Report:

By Major Country

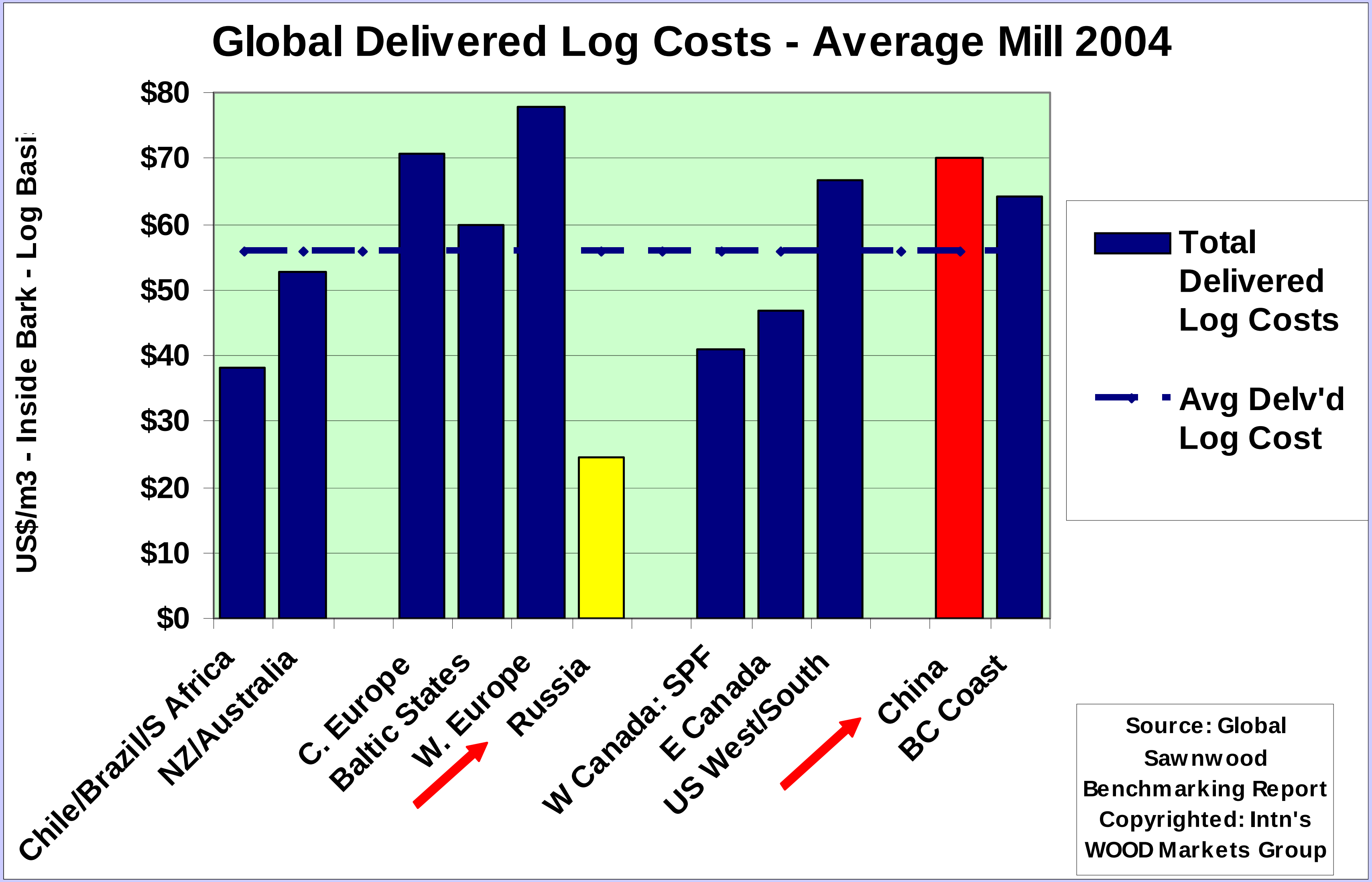
2004 Costs

BC Competitive Position

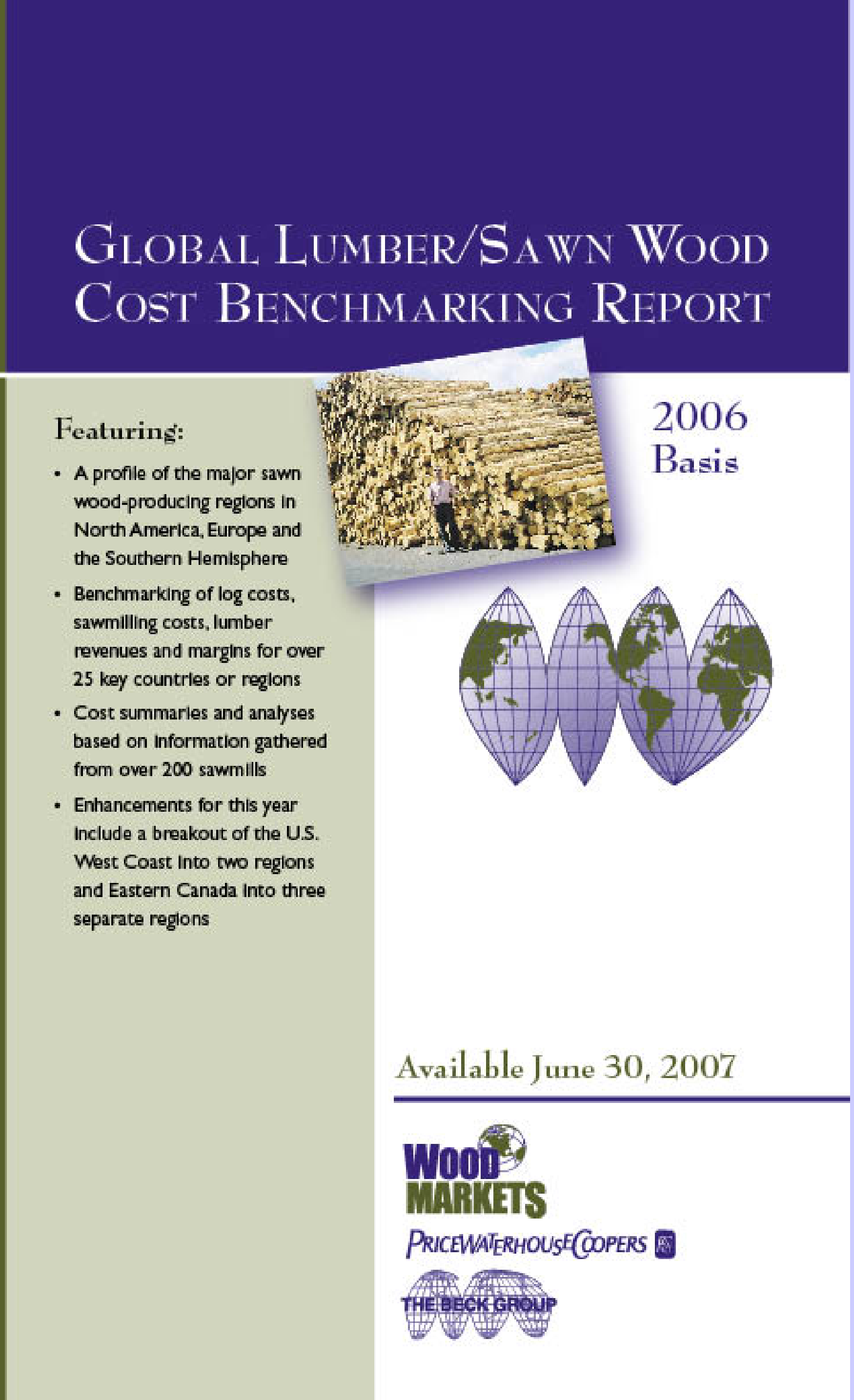
In the mid-1990s, the BC Coast was still competitive and the BC Interior was just starting to face higher costs!

In the 2000s:	**BC Coast**	**BC Interior**
• Log Costs	= high end	= low end
• Sawmill Costs	= highest	= low end
• Revenue	= highest	= moderate
• Margin (EBITDA)	= lowest	= highest

China vs. Russia Log Costs (2004)



Russia has a key strategic advantage in log costs



7. Global Lumber Benchmarking Report (2007 Edition):

Includes 27 Major Countries or Regions

Full Report is Available July 2007

BC Global Competitive Position

In Q1 2007:	BC Interior Global Rank
• Log Costs	= low end;
• Sawmill Costs	= low end; US West & E. Europe is lower
• Revenue	= low/moderate; lots of freight to markets!
• Margin (EBITDA)	= 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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