



Council of Forest Industries

The Forest Industry in B.C. Putting it in Context

October, 2004



SLIDE 1

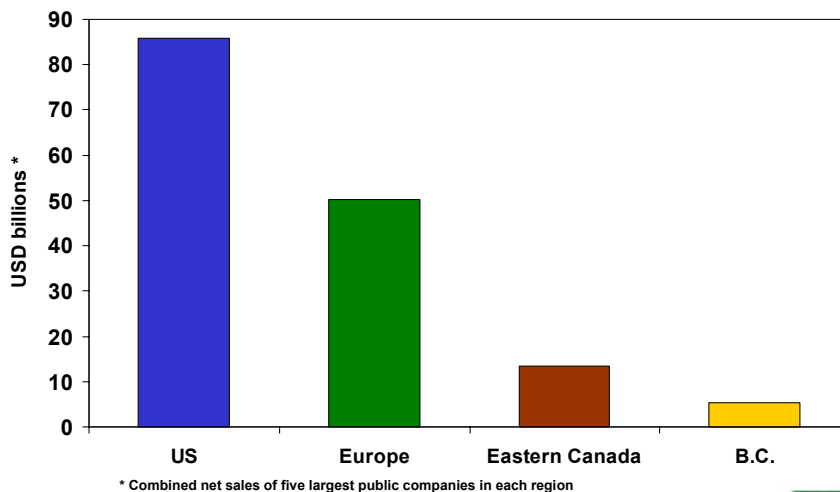
(TITLE PAGE)

- ❖ Like to cover off number of issues that drive BC Forest Industry – both external like tariffs, exchange rates and internal like forest policy changes
- ❖ Important to understand where (or have a picture of where) BC stands on the world stage
- ❖ We are a small open economy
- ❖ Very dependent on trade and hence exchange rates
- ❖ Essentially a price taker for our forest products
- ❖ Which means we have to be globally competitive to survive

➤ *So where do we stand?*

Global Industry Net Sales 2003

BC pales by comparison



SLIDE 2

- ❖ In terms of the Global Forest Industry, BC ranks relatively low
- ❖ The position of the top companies is driven by pulp and paper
- ❖ Values in this chart are US \$ billion and are the top 5 public companies in each region

United States	\$85.9 million
Europe	\$50.3 million
Eastern Canada	\$13.5 million
British Columbia	\$ 5.4 million

➤ *Looking at this another way...*

Global Industry Top 5* Public Companies, by Region

- **U.S.:** International Paper (1); Georgia Pacific (2); Weyerhaeuser (3); Kimberly-Clark (4); Boise (12)
- **Europe :** Stora Enso (5); UPM Kymmene (6); Svenska Cellulosa (7); Metsaliitto (11); Jefferson Smurfit (16)
- **Eastern Canada:** Abitibi-Consolidated (21); Domtar (23); Cascades (32); Tembec (35); Nexfor (38)
- **B.C.:** Canfor (35E); West Fraser (37E); Riverside (95E) ;Interfor (93); Doman (98)

* Based on net sales value (2003 ranking in relation to PwC Top 100)



SLIDE 3

- ❖ This slide gives the relative ranking of each of these 5 public companies by region **but** within an overall global ranking
- ❖ So the top 4 are all US – IP, GP, Weyco, and KC
- ❖ Our newly merged Canfor/Slocan is 35, and West Fraser/Weldwood is 37
- ❖ And other BC Companies are well down the list, although there will be some who might move up in the coming weeks
- ❖ Effective June 30, 2004 Nexfor has become Norbord and Fraser Papers

➤ *The Canadian specific numbers
are as follows...*

British Columbia's share of sales

	Canada	British Columbia	%
Lumber Sales	\$ 13 billion	\$ 6 billion	46%
Pulp Sales	\$ 7 billion	\$ 2 billion	29%
Newsprint Sales	\$ 8 billion	\$ 1 billion	13%
Other Paper Sales	\$ 7 billion	\$ 1 billion	14%
Panel Sales	\$ 5 billion	\$ 1 billion	20%
Other Sales	\$ 11 billion	\$ 3 billion	27%
Total Sales	\$ 51 billion	\$ 14 billion	27%



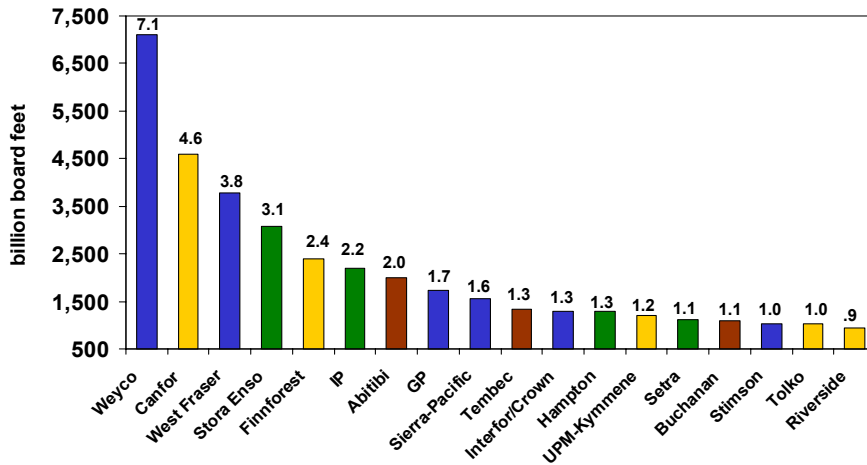
SLIDE 4

- ❖ Total Canadian Sales \$51 billion
- ❖ Pulp \$7 billion
- ❖ Newsprint \$8 billion
- ❖ Lumber \$13 billion (25%)
- ❖ Boards \$5 billion
- ❖ Other \$11 billion – value added, etc

➤ *Now lets look specifically at lumber...*

Global Industry Lumber Production – 2004

BC's strength



Source: Wood Markets – March, 2004



SLIDE 4 Cont'd

- ❖ BC's strength is its lumber sector
- ❖ 7 Companies on this graph have operations in BC
- ❖ Canfor is Home Depot's largest supplier
- ❖ BC softwood lumber production was 15.3 bbf last year (46.5% of Canada's total) with 10.3 bbf going to the US (53% of Canada's exports)

Lumber Capacity

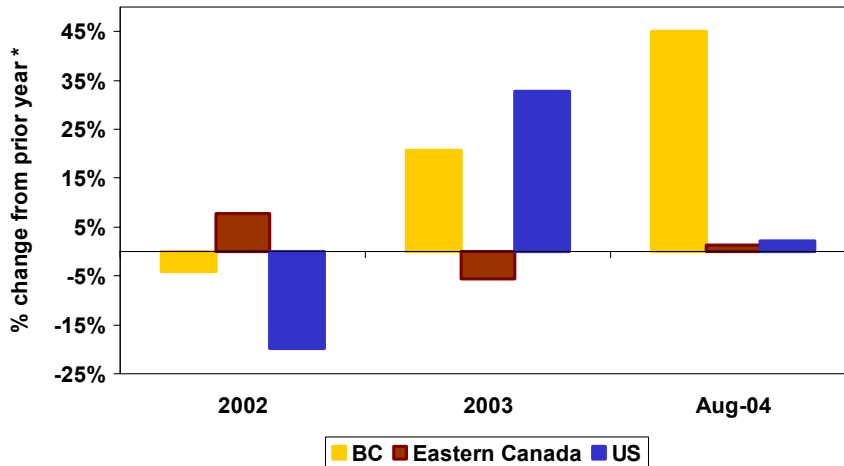
Weyco	7.1 bbf
Canfor	4.6 bbf
WF	3.8 bbf
IP	2.2 bbf
Abitibi	2.0 bbf
Tembec	1.3 bbf
Buchanan	1.1 bbf
Tolko	1.0 bbf
Riverside	0.9 bbf

- ❖ With BC being almost 50% lumber not surprising BC is small on a global scale

➤ ... But there is good news

North American Industry Share Prices

Market recognizing BC gains



* in combined share price of top 5 public companies in region

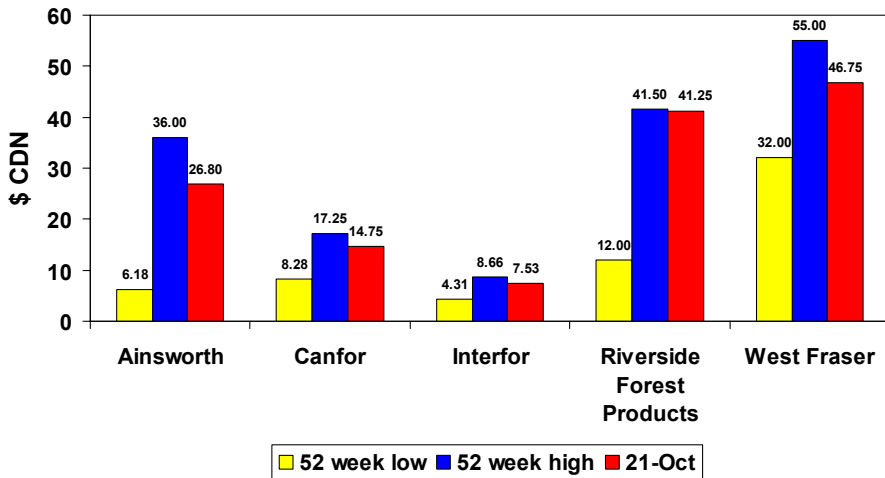


SLIDE 5

- ❖ The market is starting to recognize BC
- ❖ Share prices for the top 5 BC companies (Canfor, Interfor, Riverside, West Fraser) increased 45% from January 1, 2003 to August 30, 2004.

➤ *More specifically...*

British Columbia Share Price Changes



SLIDE 5 (cont'd)

❖ Put another way from a 52 week low to October 21/04:

Canfor up 107%

Riverside up 244%

WF up 46%

❖ B.C. is catching up, and

❖ Market is looking favorably at B.C.

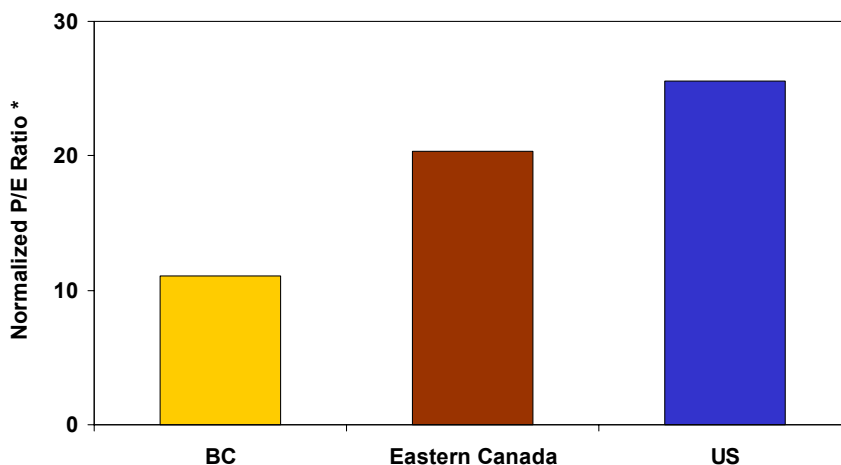
❖ Economic performance

❖ Provincial Policy changes

➤ *However...*

North American Industry Price/Earnings Ratio

BC discount



*average of January, 1999 to April, 2004 for average of top 5 public companies in region noted



SLIDE 6

- ❖ Our P/E Ratios continue to lag those in other regions
- ❖ Usually market expects higher, more consistent earnings growth from companies with higher P/E ratio

- ❖ The P/E Ratios are:

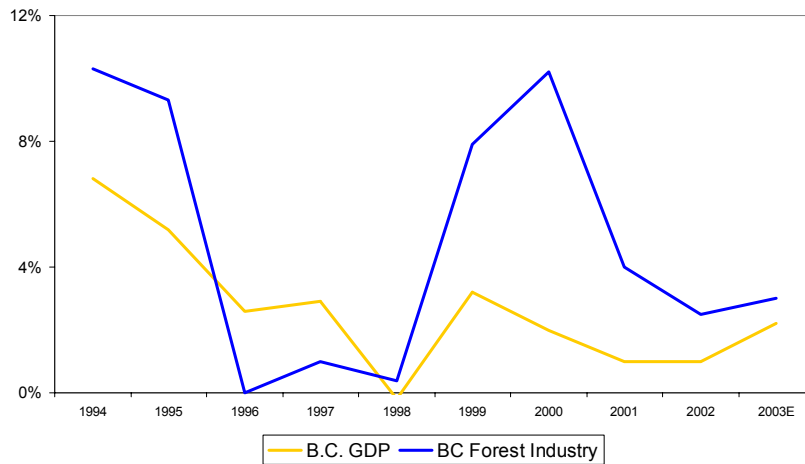
BC	11
EC	20
US	25

- ❖ So we still have some work to do to improve our track record

➤ *Now, lets look at some internal to B.C. issues...*

B.C. Forest Industry Return vs. GDP

Major driver of provincial economy

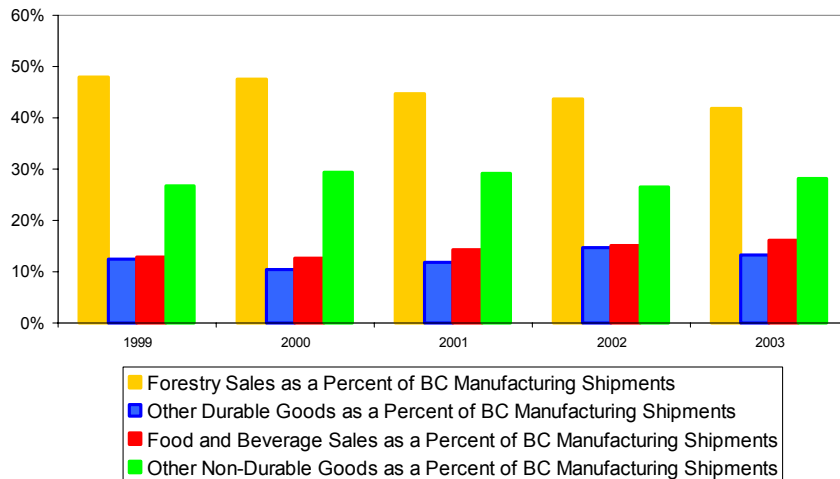


SLIDE 7

- ❖ As the forest industry goes so does provincial GDP
- ❖ You can see the correlation on this slide which tracks year on year changes in GDP and ROCE since 1994

➤ *And...*

B.C. Forest Industry B.C. Manufacturing Shipments



Source: BC STATS



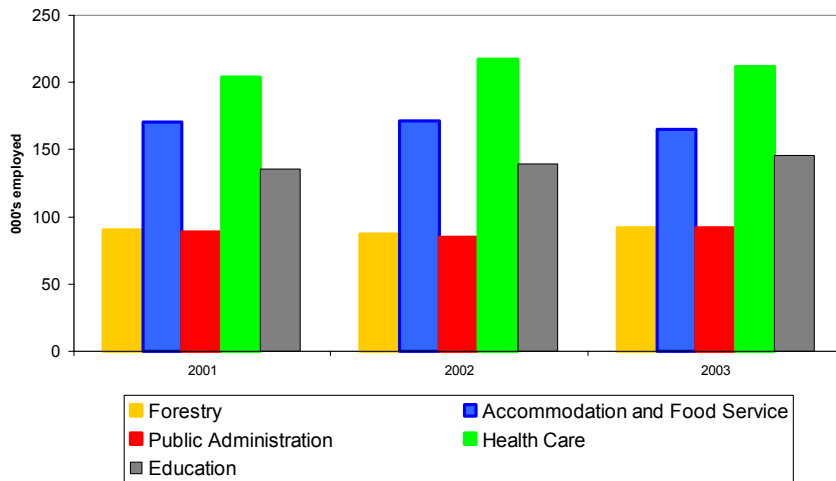
SLIDE 7 Cont'd

- ❖ You can see that the forest industry percentage of total BC manufactured goods has declined over the past five years, yet it remains a crucial element of the BC Manufacturing economy, representing more than 40% of total Manufacturing Shipments.
- ❖ And with more than 10% of the provincial GDP stemming from the industry, it remains the “engine” of the economy

Forestry Sales as a percent of Provincial GDP (not on slide)

1999	16%
2000	15%
2001	12%
2002	12%
2003	10%

B.C. Forest Industry B.C. Employment



Source: BC STATS



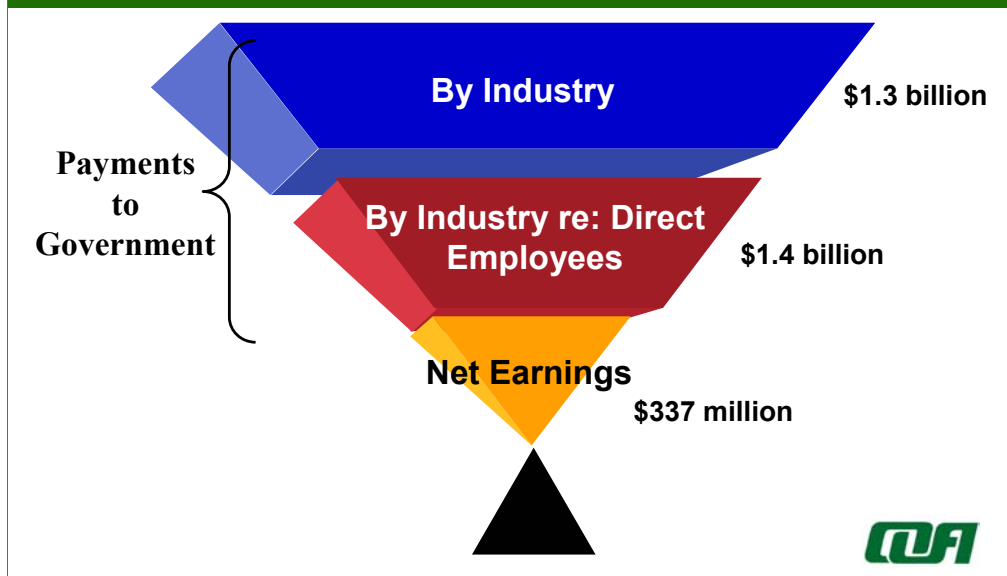
SLIDE 7 Cont'd

- ❖ BC's economy remains highly weighted towards services with 79% of all BC jobs in 2003. These jobs include many lower paying jobs such as retail and food services.
- ❖ The manufacturing sector tends to hold higher paying roles. The forest industry represents one in five of these jobs, and one in twenty for all working British Columbians

➤ **Let's take a look at how the industry supports the province financially...**

B.C. Forest Industry 2003

Weak foundation



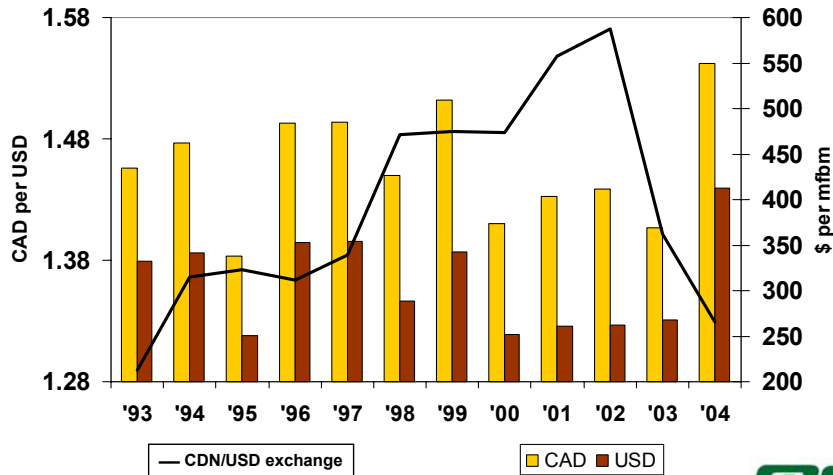
SLIDE 8

- ❖ The industry is a huge contributor to government revenues
- ❖ In 2003 when shareholders were left with \$337 million, all three levels of government collected \$2.7 billion
- ❖ Even with the odd strong market in the US such as in 1999 results have been pretty dismal
- ❖ But of course we have had a great run up in prices in the last few months

➤ *Why the inconsistency?
Let's look at some external factors...*

Export Dependent Industry Foreign Exchange

What if low price and low FX?



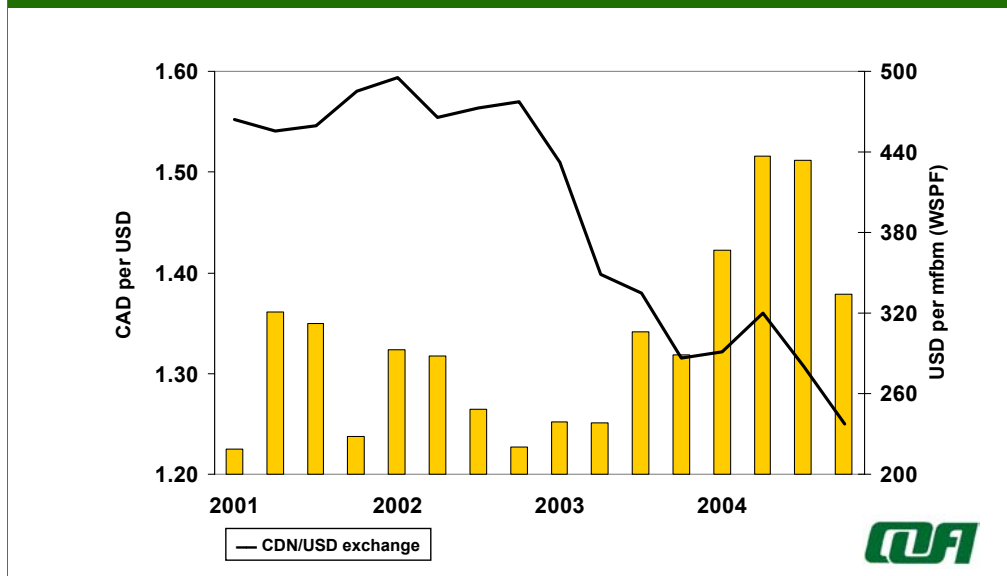
SLIDE 9

- ❖ Not only are we price takers – we are exchange rate takers
- ❖ Price of lumber in Canadian dollars is far more volatile than in US dollars
- ❖ From 93 – 99 the low value of the Canadian dollar greatly assisted producer returns
- ❖ However, in 2003 the exchange rate appreciated but prices were flat for most of the year leading to poor returns

➤ *Looking at this in more detail...*

Export Dependent Industry Foreign Exchange

Recent quarters



SLIDE 10

- ❖ This slide shows the same result by quarter
- ❖ Volatile prices – US\$
- ❖ Volatile exchange rate
- ❖ In the last two quarters we have had the best of both worlds. Extremely high prices and a weakening of the Canadian dollar
- ❖ Now we see the reverse – falling prices and an appreciating donor

➤ *The impact...*

Forest and Paper Industry Earnings Sensitivity

	Canadian Industry	BC Industry
<i>Annual</i> impact of 1 cent increase in USD on sales revenue	\$507 million	\$150 million
<i>Annual</i> impact of change in CAD 2002 v 2003	(\$4.0 billion)	(\$1.2 billion)
<i>One-Time</i> reduction in CAD required to repay US debt, due to stronger CAD in 2003	\$3 billion	\$750 million



SLIDE 11

- ❖ This slide illustrates the sensitivity of earnings to exchange rate changes
- ❖ On a net basis, the appreciation of the dollar cost the industry \$450 million in 2003
 - *We also face another huge external challenge called Trade Litigation...*

Trade Litigation CVD/ADD deposits

Huge external driver

Cash Deposits (USD)

	2002 ⁽¹⁾	2003	2004 ⁽²⁾	Total
BC	352	635	698	1,685
Rest of Canada	276	492	547	1,315
Total	628	1,127	1,245	3,000

(1) May 22nd to December 31st

(2) January 1st to October 31st (est.)

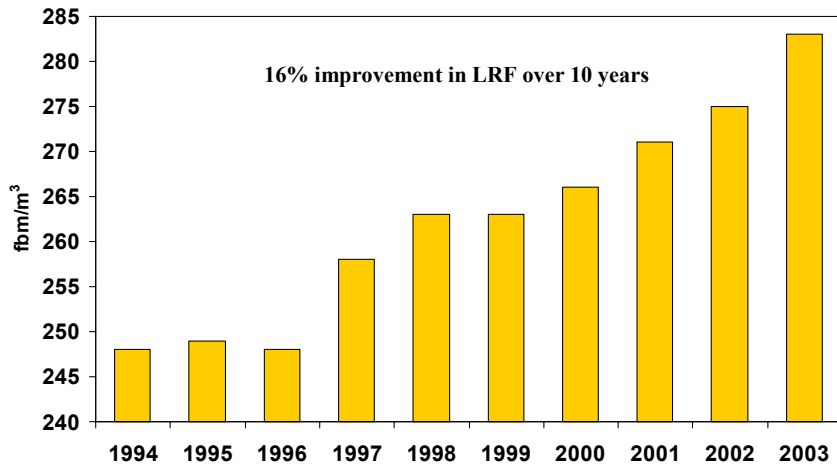


SLIDE 12

- ❖ We have paid \$3.0 billion in US dollars in the form of unfairly collected CVD and ADD cash deposits
- ❖ Majority is from BC
- ❖ Expect to have \$4.0 billion (Canadian) on deposit by end of 2004
- *In response to exchange rate pressures, 27% duties and increasing global competition, we had to regain control of costs...*
 - *However, there were two significant factors in our favour...*
 - *Supportive policy framework*
 - *Recently favourable markets*
 - *We can see an early response to these challenges in our LRF's when the first wave of increases in operating costs hit the industry*

B.C. Interior Lumber LRF

Continuous improvement



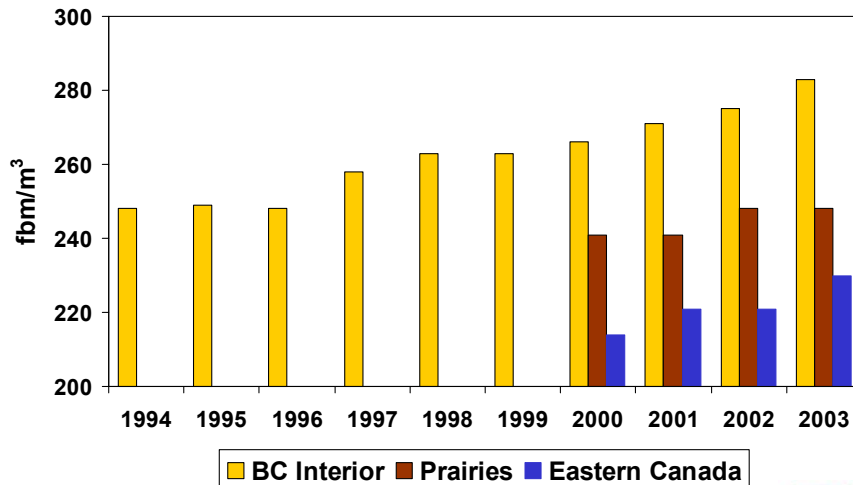
SLIDE 13

- ❖ We have seen a 16% improvement in LRF's over the last 10 years
- ❖ As you can see this improvement has been continuous

1994	248
1999	263
2003	283

LRF Regional Comparison

The BC edge



SLIDE 14

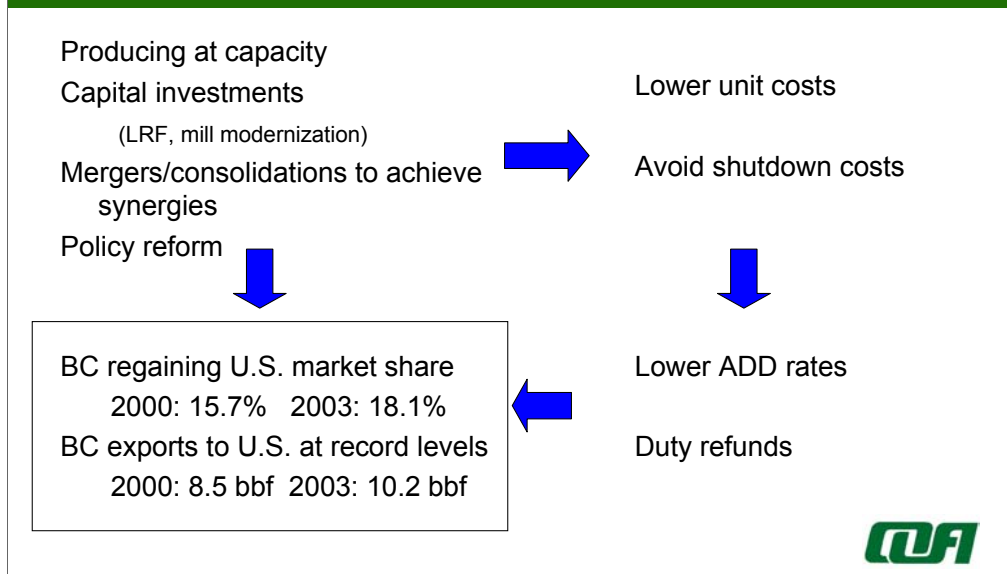
❖ And we are outstripping the rest of the country

	<u>BC Int.</u>	<u>Prairies</u>	<u>EC</u>
2000	266	241	211
2001	271	241	221
2002	275	248	221
2003	283	248	230

➤ *Capturing our strategy and results
in one picture...*

The BC Response To Improve Global Competitiveness

New paradigm



SLIDE 15

- ❖ Essentially we have invented a new production and operating paradigm
- ❖ If anything these external and internal forces have made us leaner and more efficient.
- ❖ In summary, the B.C. interior industry is strong and resilient and will continue to play a huge role in the economic future of the province