

Global Timber Developments & North American Wood Products Market Outlook

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Presentation Outline

- 1. Global Timber: Perspectives**
- 2. Russia: Log Export Tax Schedule**
- 3. Russia: Industry & Log Export Trends**
- 4. China: Industry & Log Import Trends**
- 5. North America: Timber Trends**
- 6. Global Timber: Summary**
- 7. Europe: Sawmilling Sector**
- 8. North America: Lumber & OSB Outlook**
- 9. 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**

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**

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

GLOBAL LUMBER/SAWN WOOD COST BENCHMARKING REPORT



2006 Basis

Featuring:

- A profile of the major sawn wood-producing regions in North America, Europe and the Southern Hemisphere
- Benchmarking of log costs, swelling 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



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 especially 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
- 2 OSB Capacity Growth
- 12 Monthly Prices: World Lumber & Panel Prices
- 10 Price Forecasts: One-Year Price Outlooks
- 4 Special Report: Western Red Cedar
- Global Statistics
- 5 Barbados, Europe, USA, Canada

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.



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 sector
- An overview of global plantation-pine timber and lumber supply-side dynamics
- A review of the strategic implications of domestic vs. off-shore 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

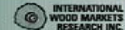
THE CHINA BOOK: Wood Products Industry and Market Review

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.



FIRST EDITION



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

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

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PRICEWATERHOUSECOOPERS

THE BECK GROUP

Global Lumber Cost Benchmarking Report:

By:
Wood Markets;
PwC; Beck

27 Major Regions
or Countries

2006 & 2007 Q1
Costs

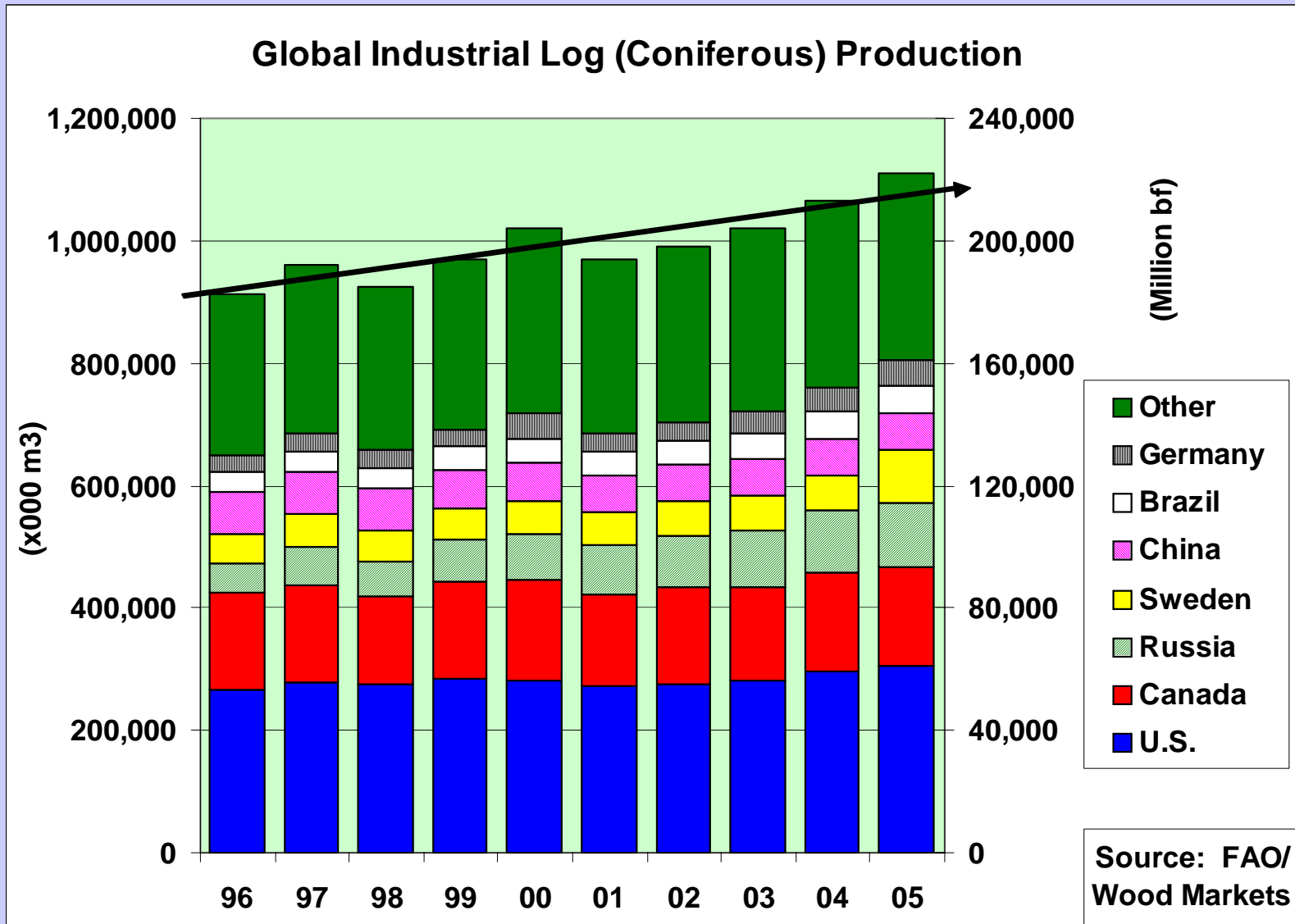
Available: June
2007

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1. Global Timber Perspectives

- **Since the early 1990s, global timber supplies have generally increased at a steady rate:**
 - **World-wide, incremental timber supplies have steadily emerged, attracted by slowly rising timber prices as well as processing capacity.**
 - **The global softwood timber supply and demand have been relative “in balance”.**
- **However, this balance is changing! Whether this is temporary or semi-permanent is the question!**

Global Timber Supply Expanding @ 2%/Yr.



Led by: US, Canada, Europe, Russia + China & Brazil

2. Global Timber - New Trends: Russia

- **New Log Export Tax Schedule announced.**
- **For softwood logs, the proposed tax rises fast:**
 - **from 6.5% to 20% (euro 10/m³) in July 2007.**
 - **to 25% (euro 15/m³) in April 2008.**
 - **to 80% (euro 50/m³) in January 2009.**
- **For birch pulpwood, the tax is delayed until 2011 when it jumps from 0% to 80%.**
- **Many uncertainties on whether it will go ahead as scheduled or what role investments will play...**
- **Russia is 40% of world's softwood log export supply & 30% of hardwood log exports, so this export tax is dramatic on its customers!**

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 logs	%	?	10%	10%	10%	80%	80%			
	Euro/m3	?	5	5	5	50	50	2.0		
Aspen logs	%			10%	10%	80%	80%			
	Euro/m3			5	5	50	50			
Birch logs > 15 cm	%			20%	25%	80%	80%			
	Euro/m3			10	15	50	50			
Birch logs < 15 cm	%						80%			
	Euro/m3						50	7.0		
<i>Semi finished prod. - bark</i>	%			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

Source: Russian Customs Committee

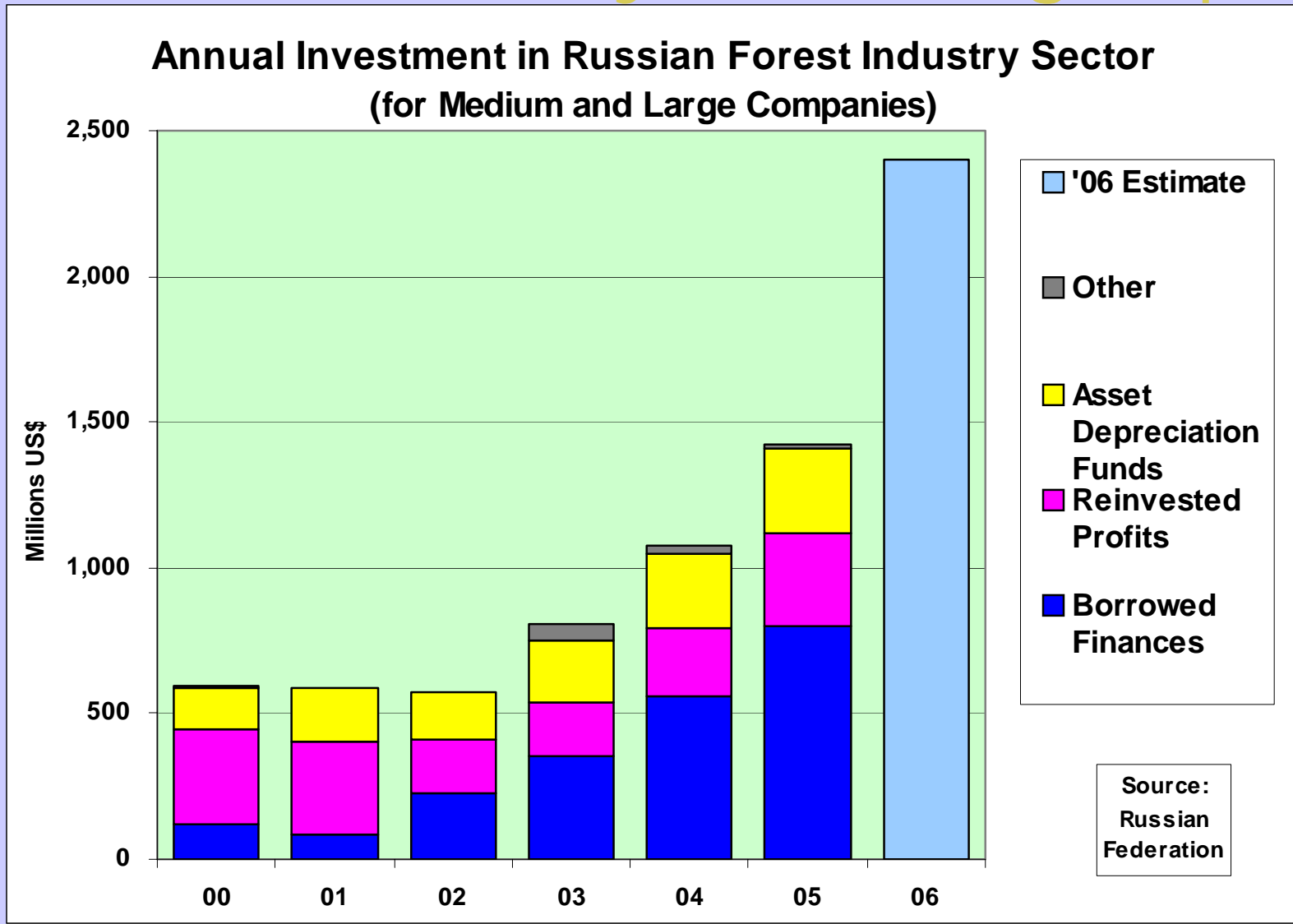
Note: Semi-finished product duties not confirmed at this point

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

3. RUSSIA: Timber & Sawmilling Industry Initiatives

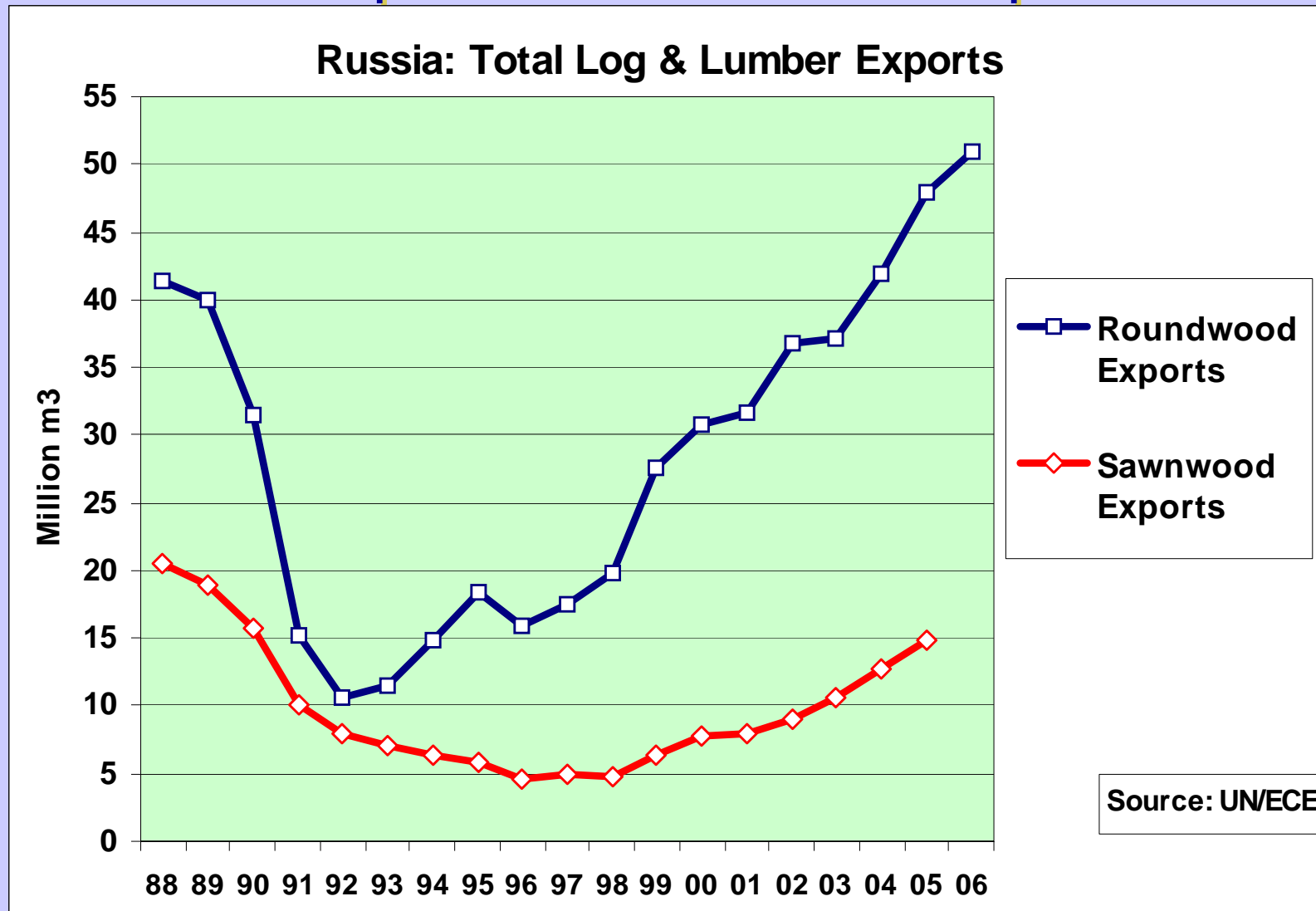
- ◆ Political climate stabilizing – sort of ...
- ◆ New Forest Code will be the basis for new domestic and foreign investment in wood products.
- ◆ Forest Leases for up to 49 years will be offered with stumpage rates of ~US\$0.25/m³ to ~US\$5.00/m³*.
- ◆ Russian log exports are huge in scale and have been a very high margin business!
- ◆ Prohibitive log export taxes are now a huge incentive to build processing facilities in Russia.
- ◆ Still many risks & uncertainties to new investments plus illegal logging issues.

Russia is Steadily Attracting Capital

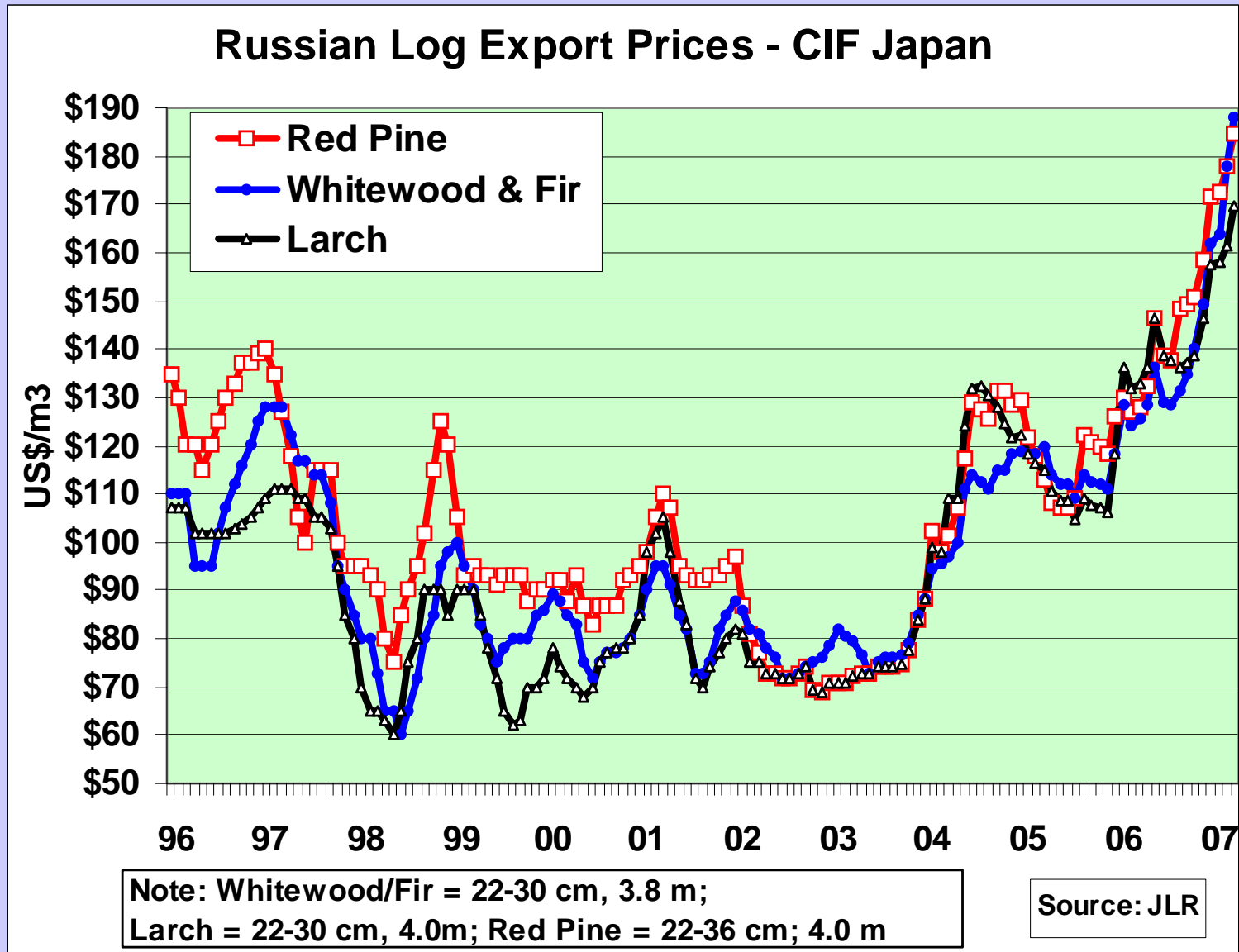


Investment in Russia is expected to be US\$4 billion in 2007, especially when the IP-Ilim Pulp deal is factored in

Russia Exports Surging, especially to Japan, China, Europe



Russian Log Prices Soaring in Japan

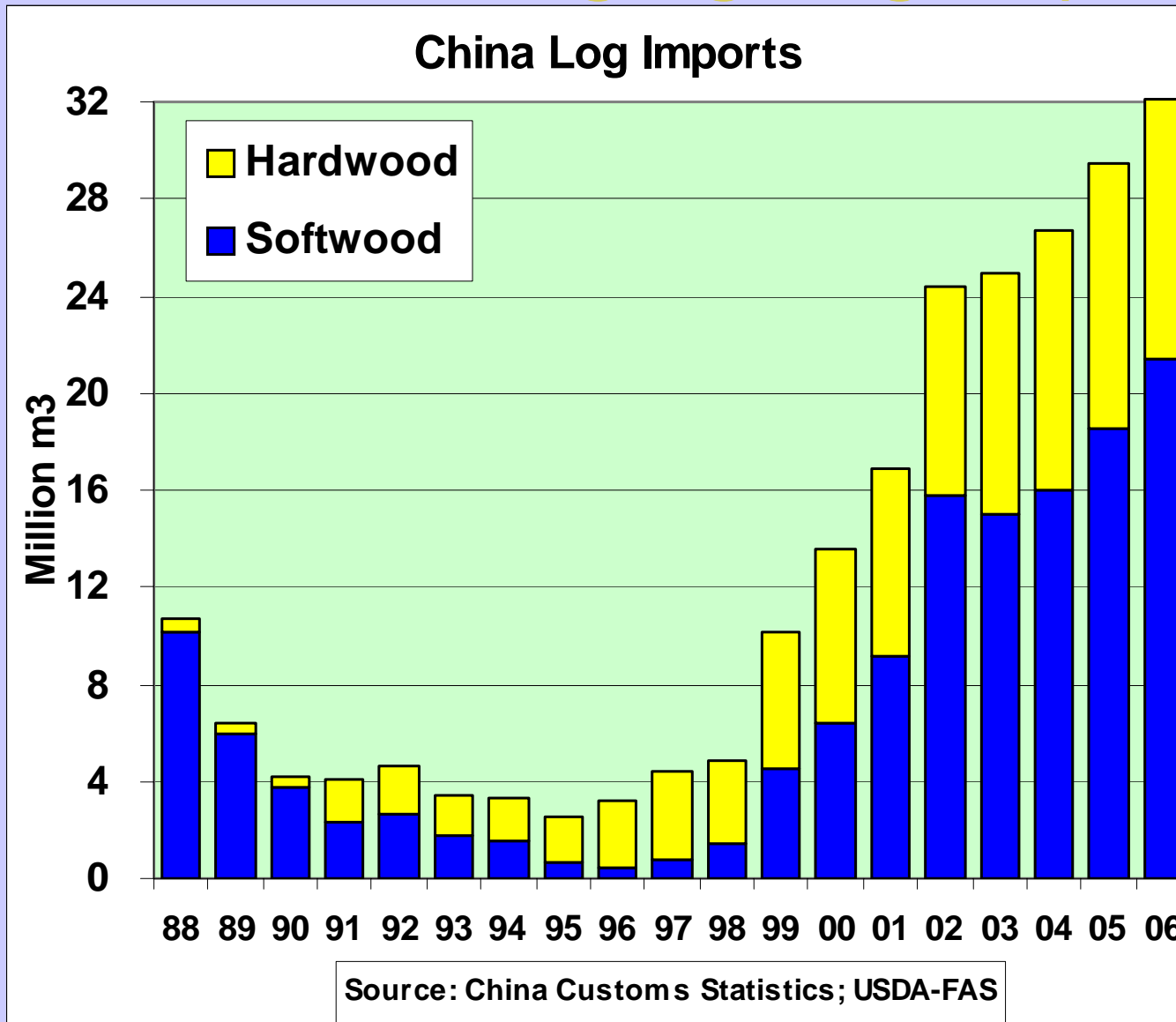


4. CHINA: Growing Role in Global Trade

China's rank in wood products global trade:

<u>Production:</u>	<u>Global Rank</u>
• Plywood	#1
• MDF	#1
• Blockboard	#1
• Furniture	#2
• Hardwood lumber	#2
• Particleboard	#3
• Softwood lumber	#4 (higher than Sweden)
• Finished Products	Soaring
• Imports	#2 (after the USA)
• Exports	#1

China's Surging Log Imports



68% of China's log imports are from Russia

China's Wages = ~US \$0.50/hour; ~\$100-150/Month



35-50 Chinese workers = 1 USA or Canadian worker!

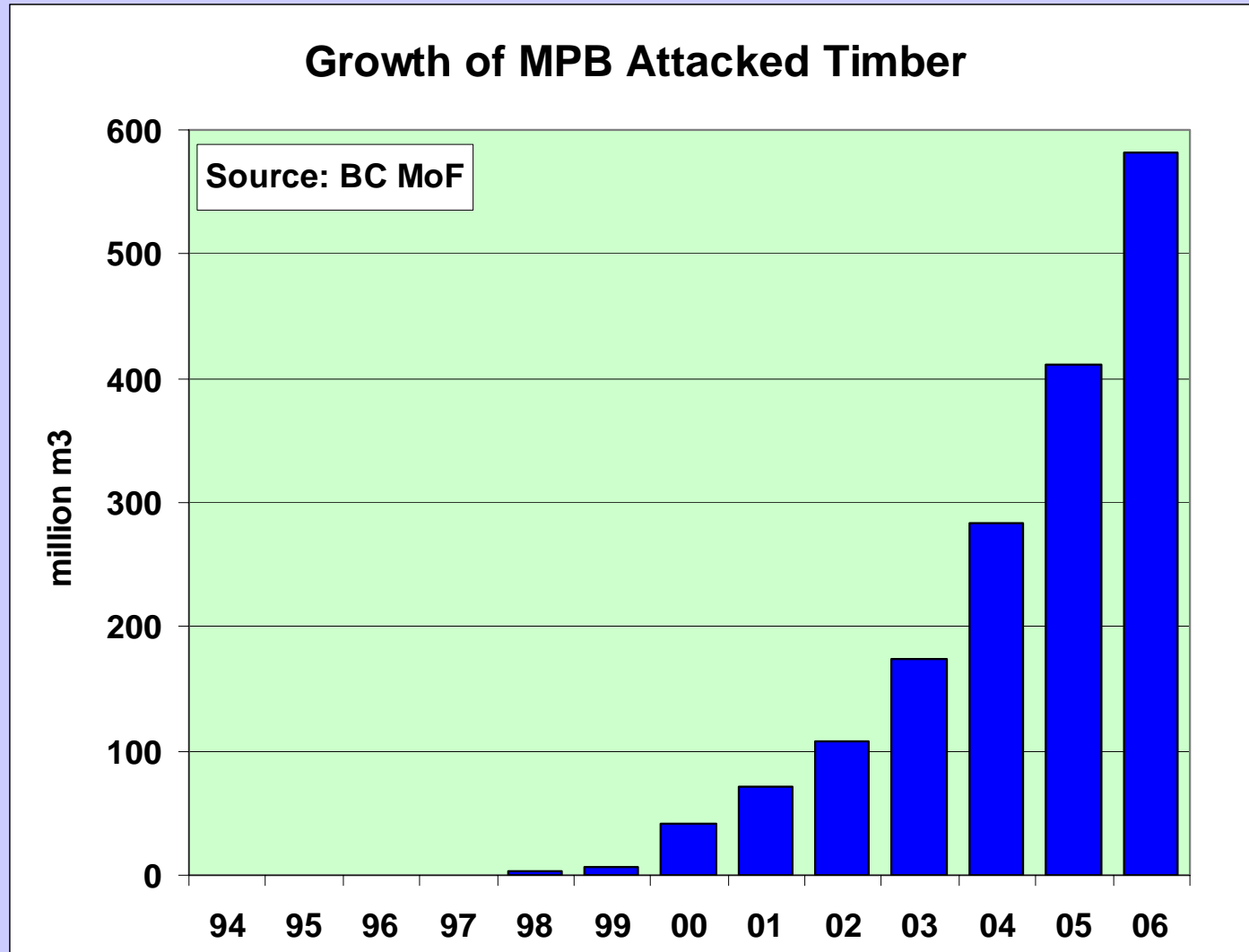
Russia/China Fit in Global Markets

- **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 & threatening to eliminate illegal logging**
- **IF this occurs in part or in whole, 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!**
- **So, Russia's log export tax = huge implications!**
- **Need to key your eye on China & Russia!!**

5. GLOBAL TIMBER - New Trends: N. America

- **Canada: Facing declines in timber harvest:**
 - **Ontario: ~5-10%**
 - **Quebec: over 20%**
 - **BC Interior (& Alberta) – drops after MPB.**
- **USA: Facing a change in timber quality as more second growth and plantations are harvested.**
- **North American softwood timber supply could start declining in the next few years and this could create a new supply/demand imbalance!!**

MPB = Short-Term Windfall for BC Interior Industry but Long-Term Threat

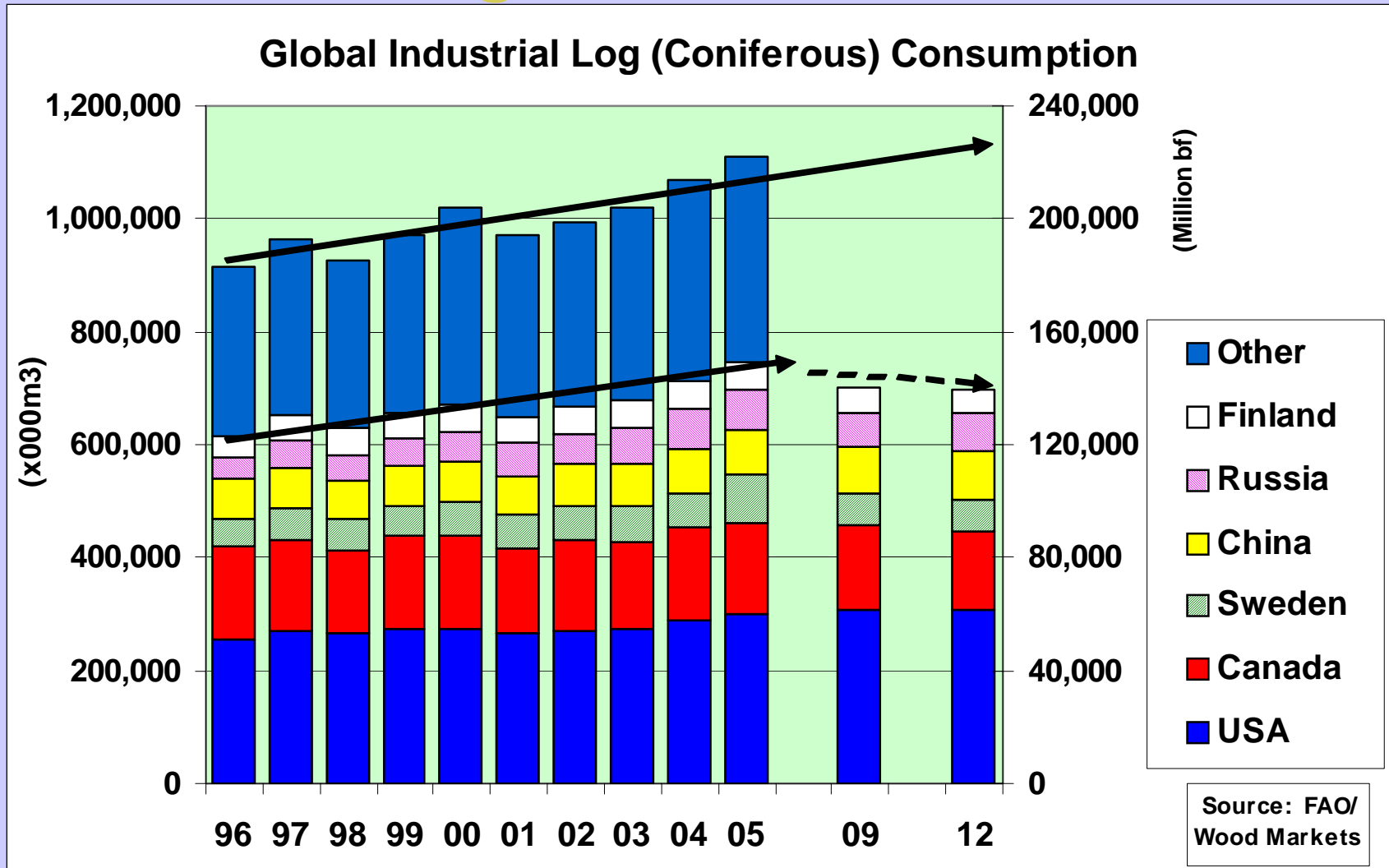


6. GLOBAL TIMBER - Summary

The proposed Russian Log Export Taxes, if imposed as scheduled, will dramatically impact the customers of its' 50+ million m3 of 'legal' log exports ('illegal' log exports could be another 10-20 million m3):

- Finland (and Sweden) – **Finland** imported 16 million m3 of Russian logs: 7 million in pulp logs and 9 million m3 in saw and peeler logs.
- **Japan** – 5 million m3 of Russian saw and peeler log imports – 3 million m3 in larch for plywood.
- **China** – 22 million m3 of Russian logs.
- **Russia** – will start invest in log processing!

Where are the World's Softwood Logs Going to Come From?



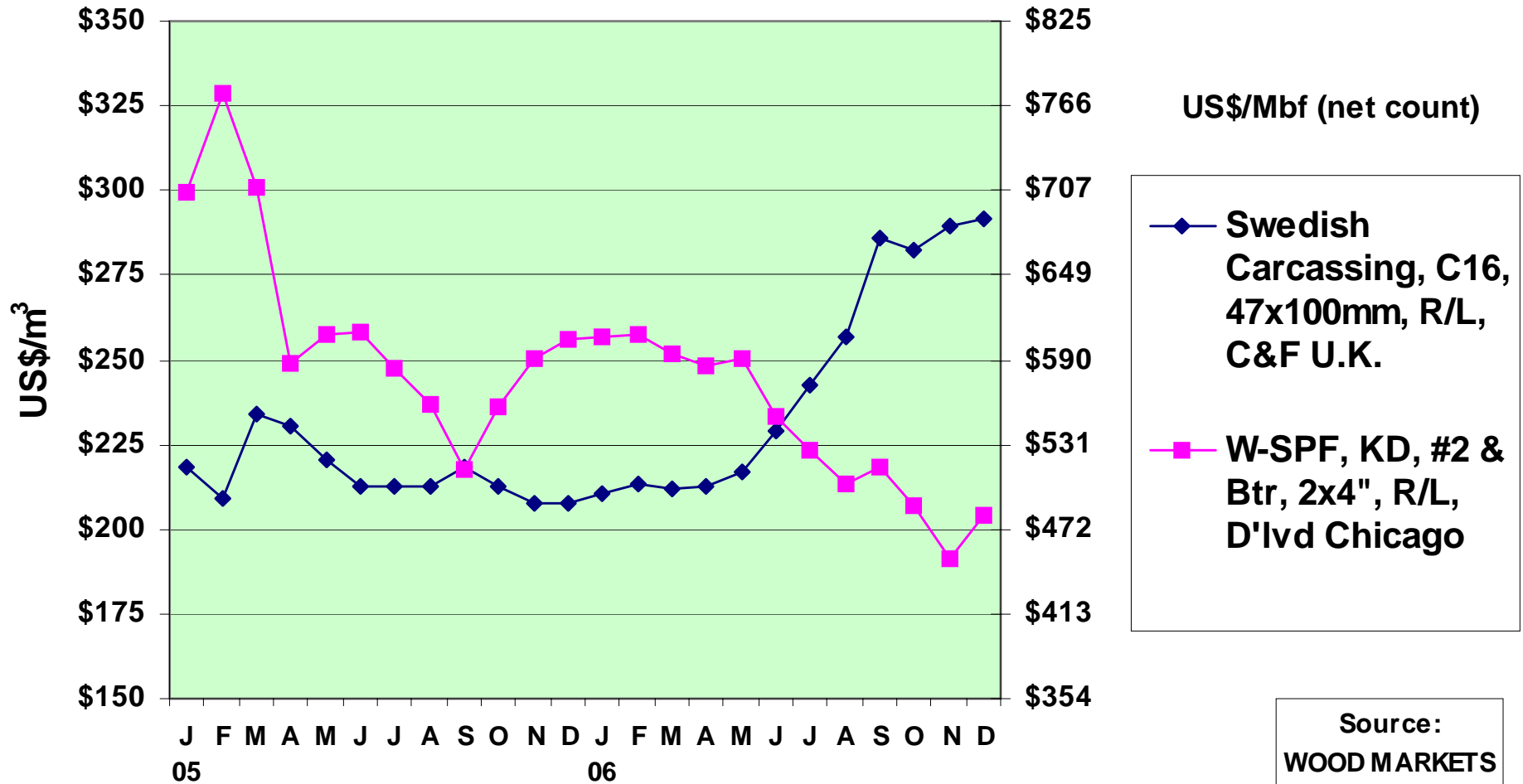
New suppliers, higher prices or more finished products required to offset gap!

7. EUROPE: Market Issues & Trends

- **Current market in Europe = has been red hot since mid-2006.**
- **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 and tight supplies.**
- **Bio-energy and wood pellets offer very high prices for residuals (chips, sawdust, shavings and bark).**

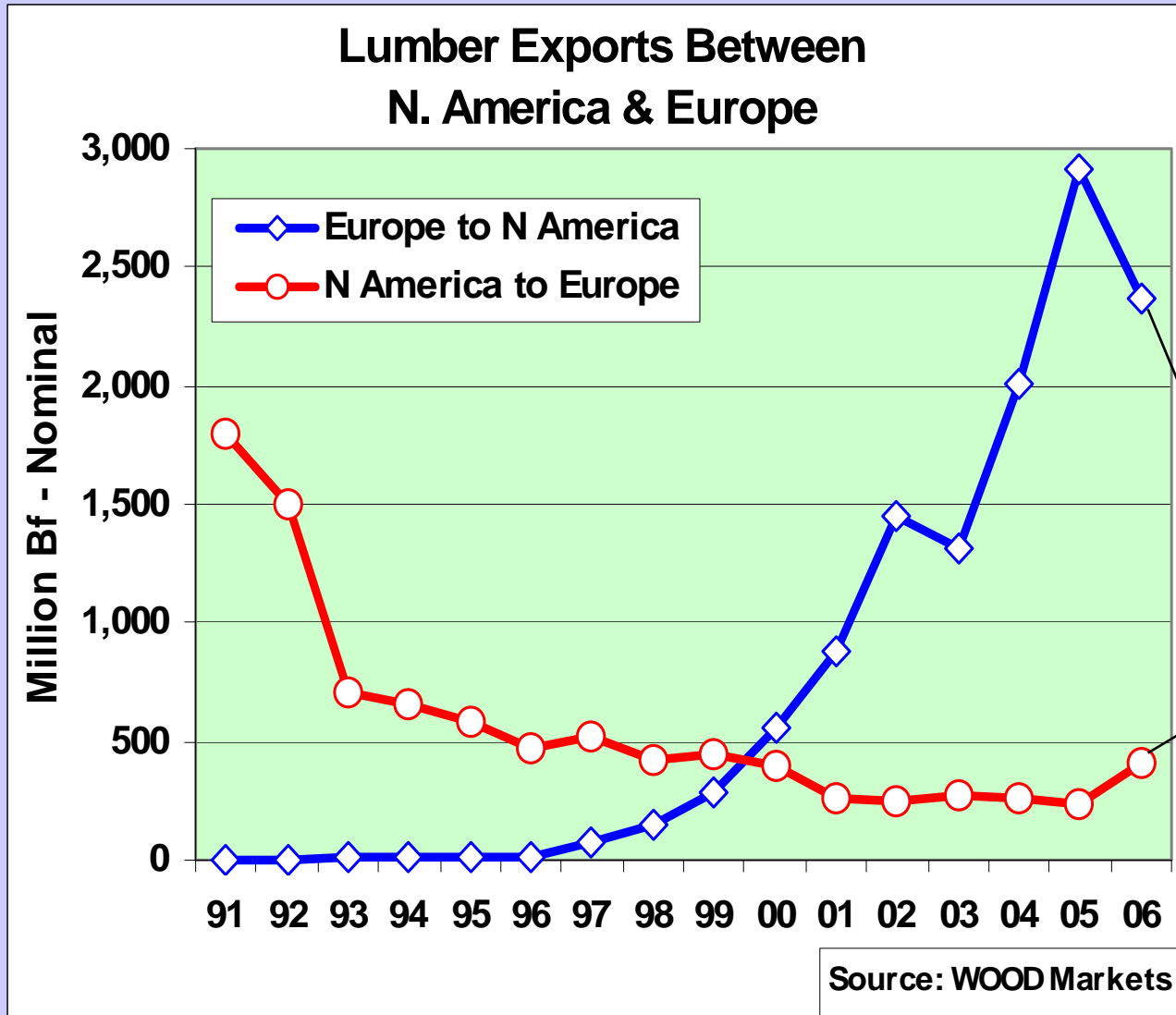
Prices: Europe Soars; US Plunges in '06

Europe vs. USA Lumber Price Trends



Exports from Europe Retreat; NA Exports to Europe?

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!**

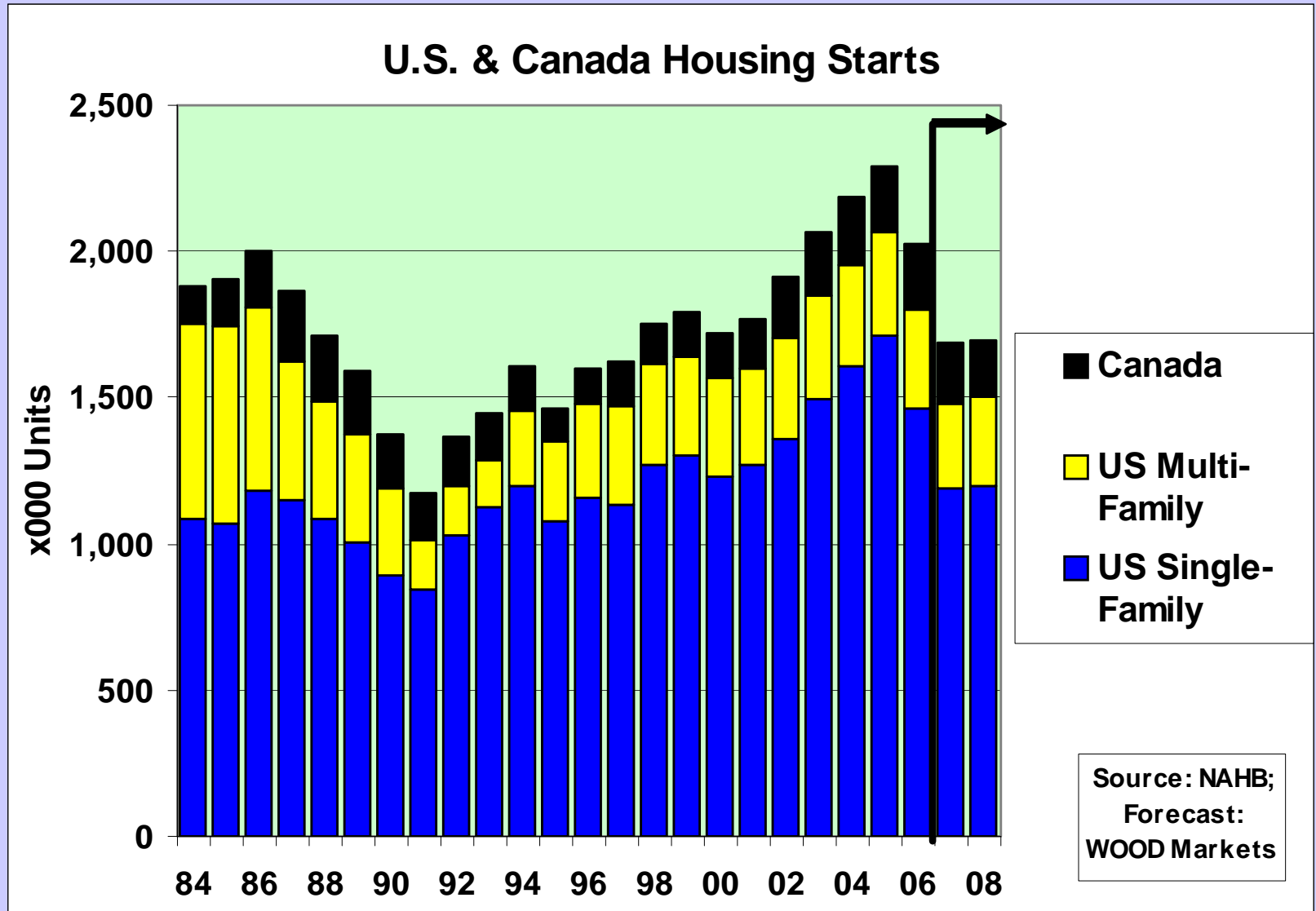
2002 =CVD/AD

2006 = Duties

8. NORTH AMERICA: Lumber & Panel Market Issues/Trends

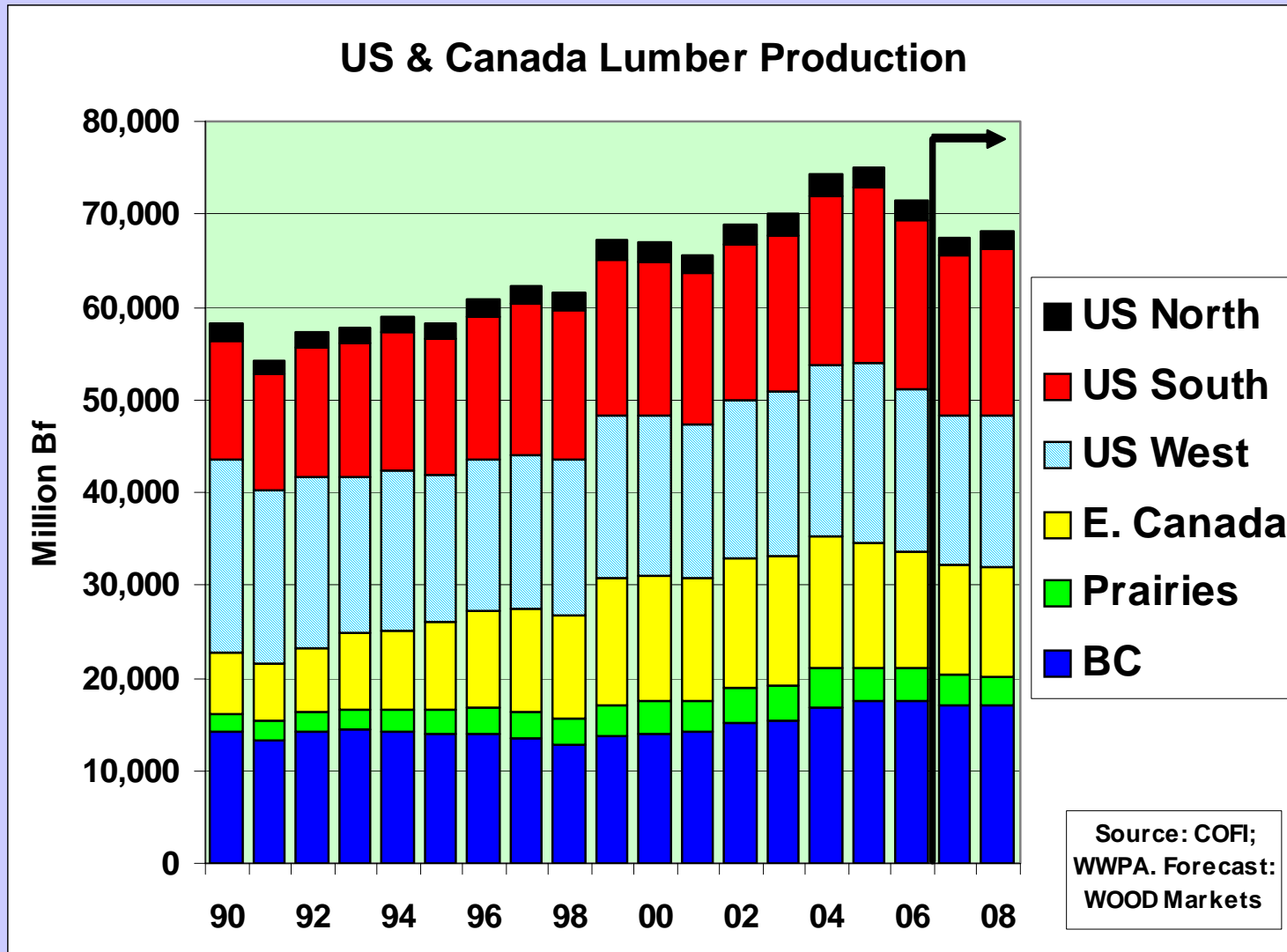
- Housing is a key driver for softwood lumber, OSB and, to a lesser degree, plywood.
- US housing starts have been overbuilt from 2003 to 2005 and now a temporary correction is occurring.
- From 2.07 million in 2005, housing starts are likely to be at or below 1.5 million in 2007 and 2008.
- Housing – 2005 to 2007: -28% (-600,000 units)
- Total Lumber Demand: -14% (-9+ Billion bf)
- Total OSB & Plywood Demand -11% (-4+ Billion sf)

Housing Starts Drive Lumber & OSB



1991-2005 = Boom Times; 2006-2007/8 = Lower!

No. American Lumber Output Directly Impacted by Consumption Plunge



Lumber output: -7.5 billion bf from 2005 of 2007

OSB Capacity Additions + Demand Slowdown = Too Much Production!

US & Canada OSB Capacity Additions

Company	Location	Capacity (MMsf - 3/8" Basis)	Expected Start Up	OSB Mill Location USA	OSB Mill Location Canada
Norbord*	Cordele, Georgia	550	2006 Q4	550	
Total: 2006		550		550	0
Martco	Oakdale, Louisiana	870	2007 Q1	870	
Grant FP	Allendale, S. Carolina	800	2007 Q1	800	
Tolko	Slave Lake, Alberta	825	2007 Q3		825
L-P	Thomasville, Alabama	700	2007 Q4	700	
Total: 2007		3,195		2,370	825
Ainsworth*	Grande Prairie, Alberta	600	2008 Q1		600
Grant FP	Clarendon, S. Carolina	800	2008 Q1	800	
Total: 2008		1,400		800	600
GRAND TOTAL: '06-'08		5,145		3,720	1,425

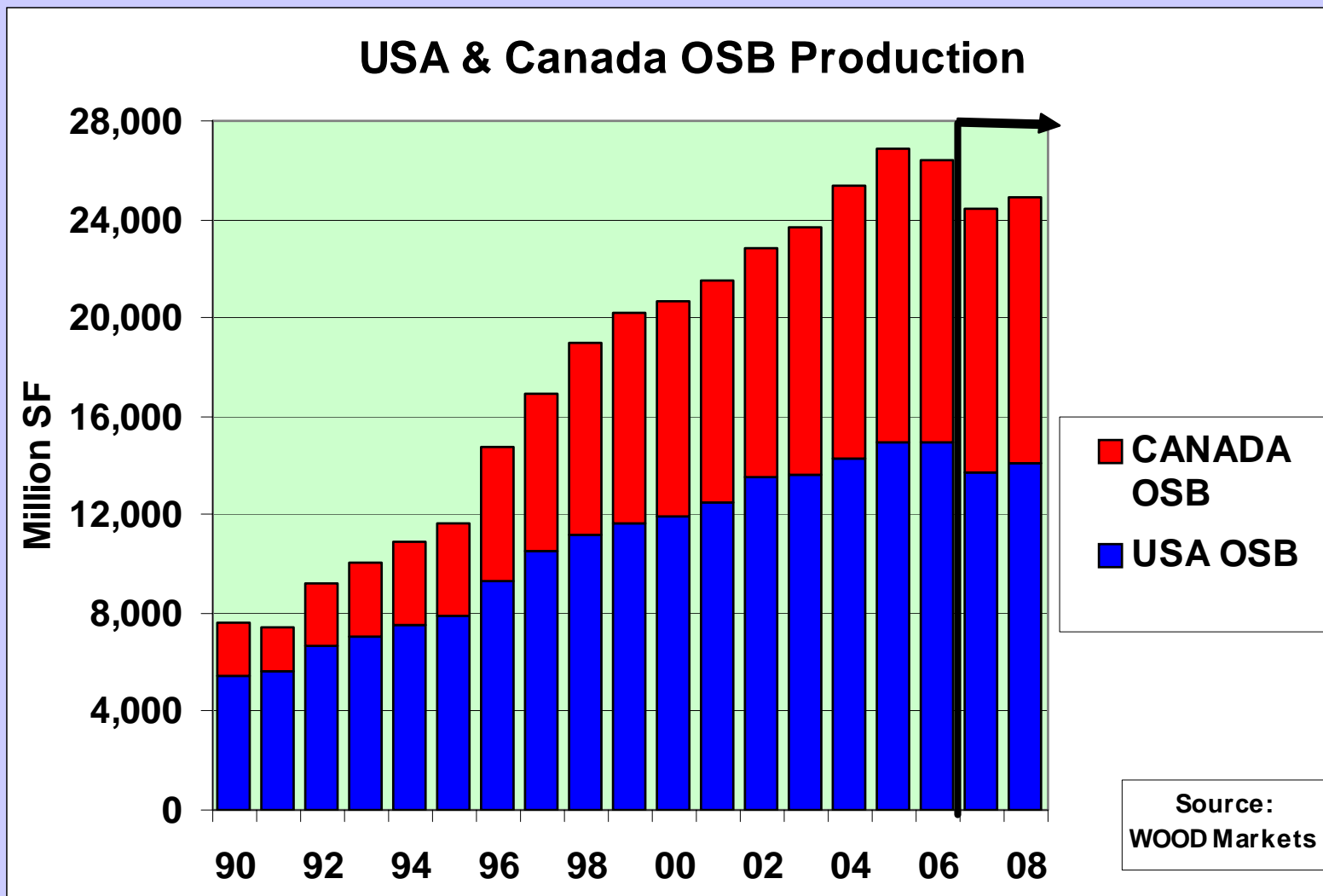
Note: * Expansion

Source: Company Reports, WOOD MARKETS

More capacity coming on as demand slumps in 2007.

OSB operating rates plunge as a result.

North American OSB Prod'n Slump



Major drop (3 billion sf) in 2007 before a slight increase

North American Price Outlook = Gloomy

Softwood Lumber Outlook: W-SPF (2x4 BC):

- 2007: to remain confined to recent trading range.
- 2008: likely higher due to curtailments, but unstable consumption may hold prices down.
- 2005: US\$353; 2006: \$296 2007: \$255 2008: <\$270

OSB Outlook: OSB (7/16" NC):

- 2007: to remain confined to recent trading range.
- 2008: likely higher due to curtailments, but unstable consumption may hold prices down.
- 2005: US\$324; 2006: \$218 2007: \$150 2008: <\$160

Plywood, MDF, Particleboard = more stable prices!

But, in 2009, prices could soar from shortages!

9. SUMMARY

Key Demand Issues:

- US housing starts!

Key Supply Issues :

- Russian log export tax schedule = impact on Europe, Japan, China – increase log floor price??
- Decreasing NA timber supplies become constraints to production in Ontario, Quebec & are ongoing constraints in the U.S. Inland
- B.C. MPB-related timber will no longer offer increased timber supplies and extra sawmill shifts.
- Softwood duties/agreement: Canada & US?
- Too much capacity chasing a soft U.S. market.

RUSSIA:

We are leading:

3rd Siberia Timber, Mill & Wood
Products Industry Tour

When: Sept 15-22, 2007

CHINA:

We are leading & sponsoring:
4th Annual

WOOD MARKETS' International China
Summit Conference & Industry Tour
Qingdao, China

When: Sept 22-24 & 25-30, 2007

Thank You!

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