

B.C. Coast: Competitiveness Trends, Opportunities & Outlook

**Coast Forest Products Association
Cowichan Bay, BC**

By: Russell Taylor



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Presentation Outline:

Key Questions Addressed:

- 1. How Tough is the BC Coast Forest Industry Situation Today? – A Look at Competitiveness**
- 2. Does the BC Coast Industry have a Future?**
- 3. Log Exports, Value-Added, and Other Opportunities – How does this look?**

Incorporating the Report:

B.C. Coast Strategic Options: Current Business, Future Opportunities & Outlook to 2020 for: Coast Forest Products Association, Vancouver, B.C. (March 2007) and funded by FII

Presentation Based on Travel & On-Going Analysis & Research

- ◆ Our extensive travels in the last 5 +/- years include assessing competitiveness in 25 countries:
 - **Southern Hemisphere**: Australia, New Zealand, Chile, Brazil, South Africa
 - **Asia**: Japan (many trips), China (25 trips), S. Korea, Taiwan, Vietnam
 - **Europe (15 trips)**: Sweden, Finland, Belgium, Germany, Austria, Czech Rep., Romania, Lithuania, Latvia, Estonia, W & E Russia, Siberia
 - **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; China Book, etc.

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. Tytler & Associates Ltd.
Published by International Wood Markets Research Inc.

R.E. Tytler & Associates Ltd. 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

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WOOD MARKETS

Incorporating: R.E. Tytler & 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
PRICEWATERHOUSECOOPERS
THE BISHOP GROUP

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 global products (such as furniture, cabinets, flooring, millwork and doors) and even 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 millwork shipments from Brazil and Chile. The relative 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 we discussed in our China cost 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. So, depending on your industry, beware!



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- 6 Australia, 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. Tytler & Associates Ltd.
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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. 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

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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 systems for softwood/hardwood products
- China's domestic market consumption and its for foreign wood imports
- An overview of investment opportunities and insights on "Doing Business" in China

1. Looking Back, How Did the BC Coast Industry Get Where it is Today?

Starting perhaps in the late 1980s and becoming more relevant in the 1990s, a number of key factors impacted the Coast's competitive position:

- ◆ Increased government stumpage rates.
- ◆ Major changes in government timber harvesting policies and increased regulations and costs.
- ◆ Increased environmental pressure and a reduction in the economic timber land base.
- ◆ Older primary mills that were not upgraded and became high-cost relative to global competitors.
- ◆ Markets changed from green lumber to kiln-dried or heat-treated, creating major problems for **hemlock-balsam** (60% of the coast's timber!)

BC Coast: Competitiveness Issues

- ◆ Whitewood delivered timber costs are at the higher end of North America log costs but are somewhat closer to the global average.
- ◆ However, higher valued **western red cedar**, **Douglas fir** and other niche species are normally more able to offset these higher logs costs.
- ◆ **Hemlock-balsam** timber: The old-growth is more uneconomic due to the inherent wood quality constraints, higher processing costs and lower sales returns. Second-growth offers a better situation...

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



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

2. CFPA Report: Terms of Reference

- ◆ To provide an assessment on coastal B.C. products, markets, costs, constraints and opportunities, including an outlook to 2020.
- ◆ To evaluate new or potential product and market opportunities for the coastal forest industry.
- ◆ A key component of the work plan involved assessing the cost structure of the B.C. Coast in terms of log and processing costs.
- ◆ No assessments were made on remanufactured or specialty (non-commodity or value-added) products – only commodity wood products.

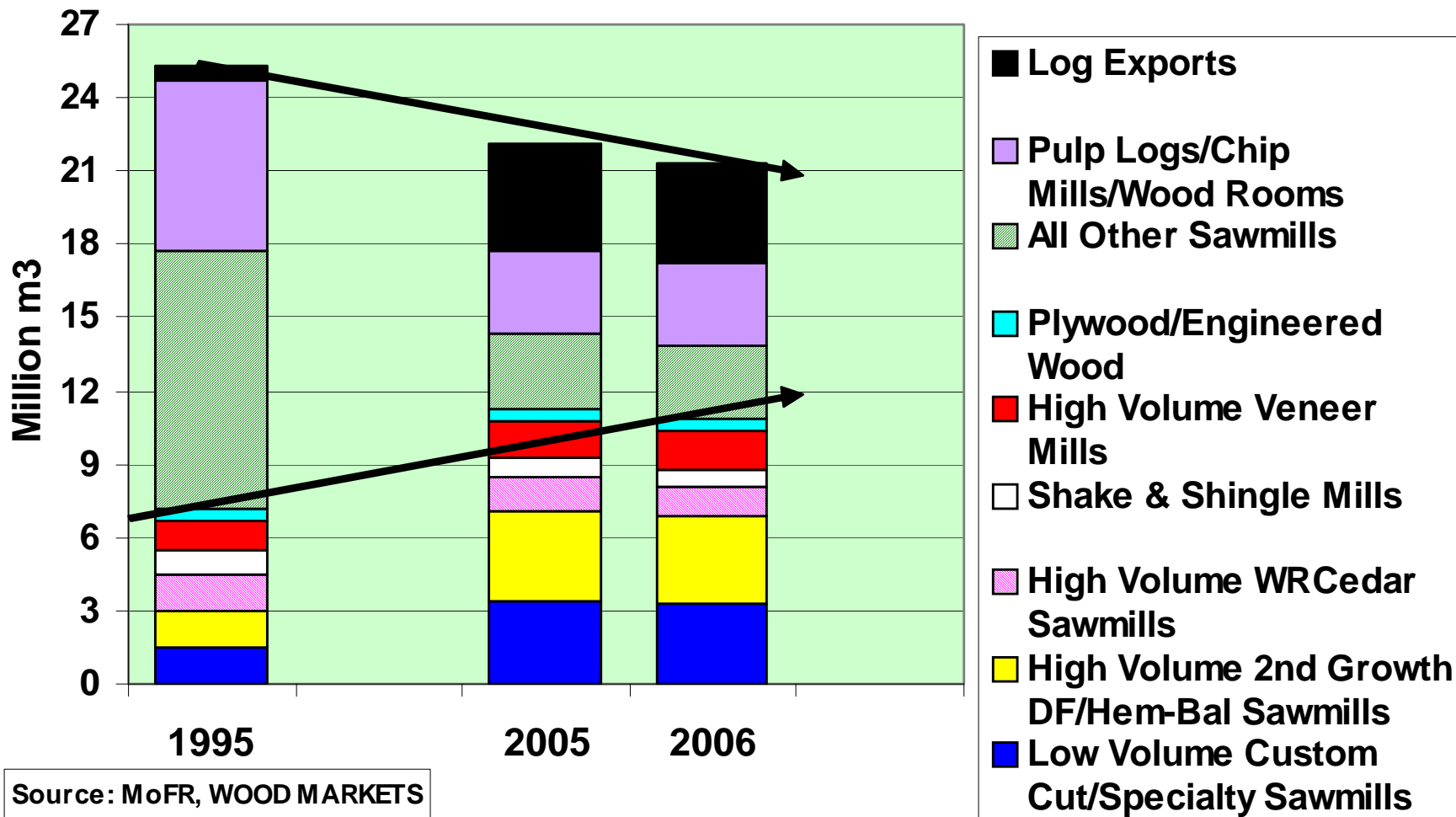
B.C. Coast Current Processing: Opportunities & Limitations

The analysis conducted in the CFPA project indicates 4 successful, existing business cases:

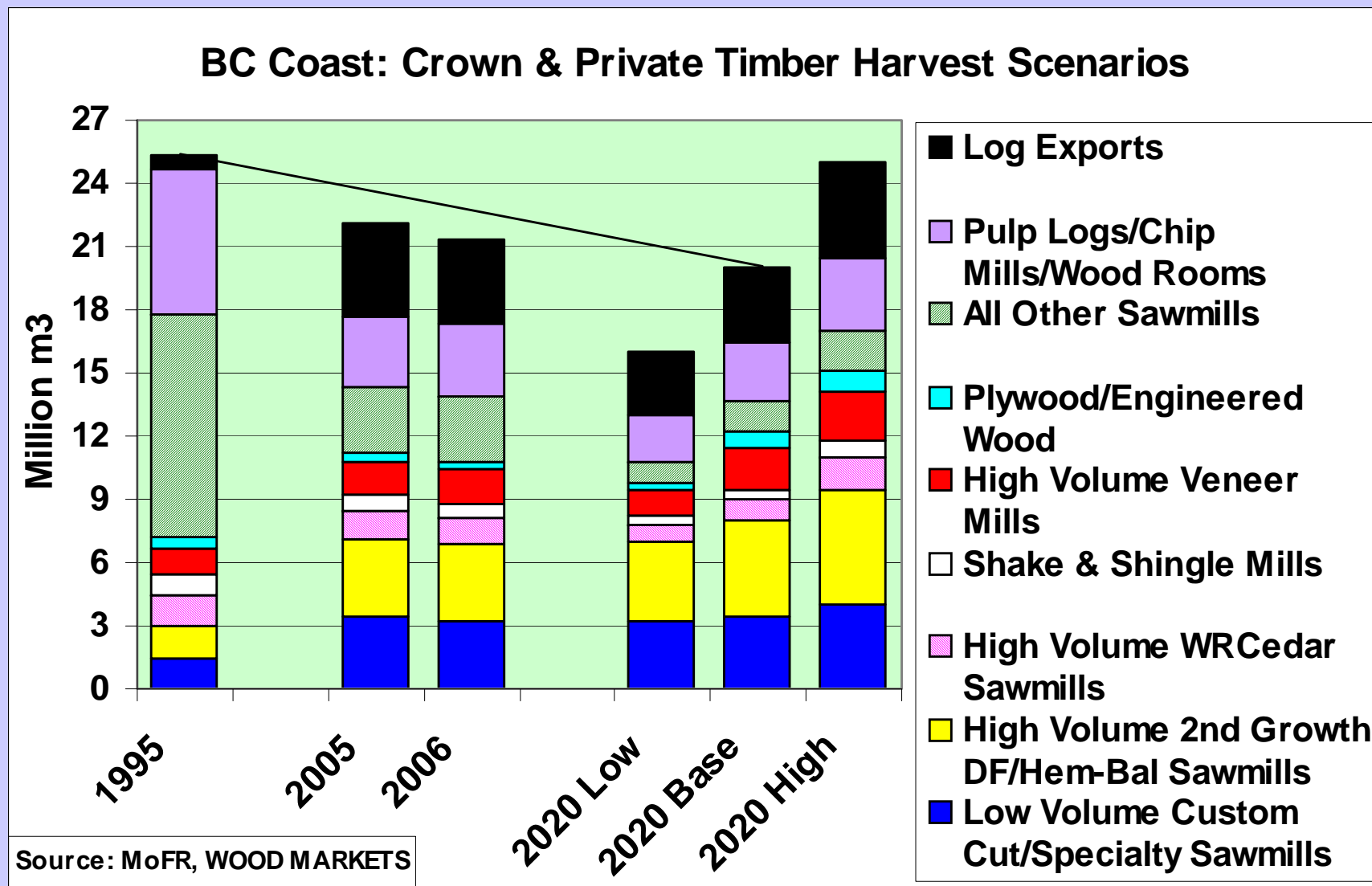
- 1. High-volume cedar sawmills: targeting specialty, semi-commodity, and some commodity products.**
- 2. Custom-cut or specialty/niche-oriented sawmills: targeting specialty products & markets.**
- 3. Veneer mills: focusing on Douglas fir timber (possibly a fit for hemlock-balsam?).**
- 4. High-volume sawmills processing small-diameter and second-growth hemlock and Douglas fir logs: low costs is a logical fit for commodity markets.**

BC Coast: Crown & Private Timber Harvest Trends

BC Coast: Crown & Private Timber Harvest Trends



BC Coast: Crown & Private Timber Harvest Scenarios



BC Coast Scenarios to 2020

Relative to 2005/2006, the major trends in production capacity anticipated to take place by 2020 on the B.C. Coast include the following:

- ◆ Significant growth is forecast to occur in the manufacturing of second-growth lumber, veneer and engineered products.
- ◆ Custom-cut volumes and probably log exports are expected to remain relatively constant (subject to timber availability and may include more cedar or whitewood mills).
- ◆ A significant reduction in pulp wood production is expected as a direct result of the shift from old-growth far less decadent second-growth forests.

BC Coast Scenarios to 2020

- ◆ Capacity in the “Other Mill” category, or those mills that were cutting old-growth logs for various markets, is expected to decline further from levels of 2005/2006. The mills in this category were mainly large, under-capitalized mills that specialized in cutting old-growth logs – **mainly hemlock-balsam** - for wide variety of markets.
- ◆ Note: the outcomes will be directly related to how well the Coast’s major constraints are faced and/or managed – this is an active role of CFPA.
- ◆ And, investing capital is required!!

Summary: BC Coast Product Fits to 2020

Current Rank	Species	Category	Growth Prospects 2020
1	WRC	Specialty	Flat to Good
2	D. Fir	Specialty	Flat to Good
3	D. Fir	Commodity	Flat to Good
4	Hem	Specialty	Flat to Good
5	Hem	Commodity	Flat to Poor*

***Note: Hemlock Commodity 2nd Growth Prospects = Flat to Good**

All scenarios subject to be competitive against competing regions!!

Product & Markets to 2020

- ◆ It should also be noted that the B.C. Coast is not really limited by any market or product restrictions or limitations – it is mainly limited by higher costs relative to competing products or suppliers (some hemlock would be the exception to this rule).
- ◆ As a result, cost reduction in delivered log costs and processing or in determining ways to define an economic timber base becomes a key theme in any coastal industry strategy.
- ◆ However, it needs to be pointed out that the U.S. and Japanese markets for coastal species represent over 90% of total B.C. Coast exports = there are relatively few market limitations in these two major markets* (as compared to many other markets).

3. Other Topics

Are there other Coast opportunities? Maybe, but these will be limited in the short term.

What about opportunities from:

- **BC Coast log export restrictions or export taxes? With or without, it impacts the industry.**
- **More value-added processing on the B.C. Coast? In niche products and markets as B.C.'s costs are too high in 'volume' products.**

Summary

The B.C. Coast has lots of challenges, but there are also potential opportunities:

- **In niche species and specialty products – red and yellow cedar as well as Douglas fir, Sitka spruce.**
- **In some semi-commodities – veneer, and maybe engineered wood and even plywood.**
- **In some commodities – 2nd growth hemlock is the best opportunity.**
- **The key will also be **competitiveness** (in labour, delivered log and processing) and that has been - and still is - the Coast's major challenge.**

For a copy of the report, visit:

www.coastforest.org/

or

www.bcfii.ca/

or

www.woodmarkets.com

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