



International WOOD MARKETS Group Inc.

Suite 501, 543 Granville Street, Vancouver, BC CANADA V6C 1X8
Tel +1 604-801-5996 Fax +1 604-801-5997 www.woodmarkets.com

PRESS RELEASE

Wood deficit in China to create major opportunities for Pacific Rim exporters: big winners expected to be BC and Russian lumber, and New Zealand and West Coast North America logs

New five-year outlook report quantifies China's growing demand for imported wood and shows how tight supplies will drive prices higher for exporters.

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China's potential fibre-supply gap (the difference between total demand and total domestic supply) is projected to reach approximately 150 million m³ (roundwood equivalent) by 2015 — or a volume that is more than the entire Canadian timber harvest in 2009 — a strong indication that China's wood imports must continue to rise in the short- to medium-term period to match with projected consumption.

China's surging wood products industry is becoming raw material constrained due to its heavy dependence on logs from Russia (65% of China total log imports over the last four years). Russian logs have become more expensive and scarce with the imposition of the Russian log export tax (currently 25% on softwood and 40% on hardwood sawlogs). The global supply of incremental logs is not large enough to replace the declining Russian log supply in the short term. China needs to grow its raw material supply at 8-10% per year to achieve its desired growth rate, but WOOD MARKETS forecasts a potential global (export) supply that will only allow China to grow its import supply at just a 3%–4% annual growth rate after 2011.

As a result of these dynamics, there are four exporting regions that should see the greatest benefits from the projected tightening of the wood supply and rising prices in China:

- **Canada (mainly B.C.)** has increased lumber exports to China by almost 800% in the last four years. With a tightening global export supply of low priced softwood logs available to China, low grade softwood (and now higher grades) of BC lumber imports have surged. The outlook is for rising volumes and higher prices for BC interior SPF and coastal lumber species.
- **Russia** has increased lumber exports by about 185% in the same four years as a result of new Russian and Chinese sawmill capacity installations in Eastern Russia.
- **New Zealand** has benefited from the reduced Russian log imports – its radiata pine log exports have grown by almost 400% in the last three years to attain 22% of China's softwood logs imports (4.4 million m³) in 2009 and radiata exports are forecast to increase even further over the next five years.
- **The US Pacific Northwest, Coastal BC and Alaska** have recently seen substantial increases in log exports and this is expected to more than double in the next 2-3 years (albeit from low levels).

These and other outlooks on the entire Chinese wood products industry and market, including supply/demand and price outlooks to 2015, are contained in a new multi-client report just released by International WOOD MARKETS Group. ***The China Book (2nd Edition): Outlook to 2015*** is a strategic assessment on the impact of a tightening global wood supply chain in the face of China's growing demand for raw materials and wood products. The report identifies the leading sources of China's key log and lumber imports and also provides price forecasts over the next five years.

“The BC lumber export story to China is quite amazing”, said Russell Taylor, President, “as so far it has been tied to good timing, right geographic location, favourable delivered cost structures and low North American lumber prices”. The steady decline in US lumber prices starting in 2006 was offset by rising prices in China. “The subsequent series of events and the competitive advantages of the BC lumber sector suddenly allowed it to establish a major “beach-head” in the low-grade segment of the China market,” explained Taylor.

WOOD MARKETS has also forecast a subdued US market for the balance of 2010 and much of 2011. “BC also has a huge supply of mountain pine beetle-killed timber that yields higher volumes of low grade lumber, so with a weak US market, BC lumber exports can only further increase to China in the short term,” explained Gerry Van Leeuwen, Vice-President. “And with less volume of low-grade (#3 and #4) lumber available, it is anticipated that further increases in B.C. lumber exports to China will shift to higher grade #2 & Better Structural lumber.” This could have an impact on the US market as long as prices stay low, as it will mark only the second time (the first continues to be Japan) where large volumes of BC SPF lumber have been diverted away from the US to an off-shore export market.

Total Chinese softwood lumber imports are expected to continue increasing and should double by 2013, where average prices are expected to increase by at least 5% per year. The current Russian log export tax of 25% (minimum €15/m3) has dramatically reduced Russian softwood log imports and is stimulating more lumber shipments from many countries. The possibility that Russia may increase the softwood log export tax to 80% (minimum €50/m3) during the next two to three years is creating additional uncertainty about future Russian log supplies. Should the tax be raised to 80% as already legislated (but not yet implemented) by the Russian government, China’s wood processing industry could face a massive shortage of raw materials and would require huge incremental log and lumber volumes as well as new supply sources – and all at much higher prices. The ripple effects through the global wood trade could be massive!

The panel industry in China is also being impacted, as China needs more fibre (including domestic and imported logs) to feed its huge plywood, OSB, particleboard and MDF industries – its panelboard output was close to 110 million m3 in 2009 – this is more than triple all of North America’s panel output.

China is the largest manufacturer and consumer of wood-based panels, furniture, flooring and wooden door products in the world. Its forest products output continues to surge at about 8-10% per year, expanding at an incredible pace of about US\$40 billion per year! Some further perspectives on China’s wood products industry and market include the following:

- It is the world’s fourth largest producer/harvester of timber (logs) after the US, Canada and Russia;
- It is the world’s third largest consumer of timber (logs) after the US and Canada;
- It is the world’s largest importer of timber (logs);
- It is the world’s third largest producer of lumber after the US and Canada;
- It is the world’s second largest consumer and importer of lumber after the US;
- It is the world’s largest producer and consumer of furniture, plywood, MDF, flooring, doors and various finished products.
- China’s forest products output was US\$230 billion in 2009.
- China has the highest level of housing starts in the world.

The report also addresses all wood-based panels and profiles the outlook in flooring, doors and furniture. An assessment of distribution channels and a 5-year price outlook on selected products is featured in the report.

For further information, please contact:

International WOOD Markets Group – (1) 604-801-5996 or e-mail:
Russell Taylor retaylor@woodmarkets.com
Gerry Van Leeuwen gvl@woodmarkets.com

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