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## PRESS RELEASE

### **B.C. Interior timber and wood products industry nearing its peak output as the full impact of the mountain pine beetle takes hold – production to peak about 2013**

*New report outlines the devastating impacts in the B.C. Interior from the ongoing MPB epidemic in the short to long-term, and the emerging downstream “supply gap” on North American lumber and panel markets.*

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The B.C. Interior's timber harvest and sawmill production is expected to see its' long awaited down-sizing as the effects of the MPB infestation on timber supplies take hold. The mountain pine beetle (MPB) epidemic is responsible for one of the largest natural environmental catastrophes and could eventually kill up to one billion m3 of standing lodgepole pine timber in the B.C. Interior. While a massive salvage program has been underway for much of the last ten years, eroding log quality, poorer conversion economics and shorter shelf-life of the dead timber will all result in a much smaller B.C. industry in the future as a result of sawmill and plywood mill closures with significant and direct consequences expected for rural BC communities. Depending on a wide range of market variables and processing assumptions, the B.C. Interior may be able to delay the inevitable, but peak sawlog availability and output is now forecast to occur within 3-5 years. One of the mid-term outcomes of this catastrophe should be much higher lumber prices for those mills that survive, as production from other parts of Canada and the U.S. will not be enough to meet market demand unless increased prices stimulate more output. As a result, the reductions in B.C. SPF lumber production will contribute to a possible 50% reduction in Canada's softwood lumber market share of U.S. consumption.

Coincident with the decline in solid wood and panel production in the BC interior will be a significant reduction in the availability of residual fibre, chips, sawdust, shavings and hog fuel, that is currently used to produce pulp, paper, pellets, panel boards and electrical energy throughout the BC interior. These shortfalls may eventually lead to a decline in the profitability of these businesses or further plant closures.

On a brighter note, it is forecast that, in the short-term, in excess of 225 million cubic metres of wood biomass, including harvesting waste, unmerchantable timber and some standing dead timber, may be available to support new biomass consuming industries throughout the BC interior, if the economics of recovery of that fibre can be supported. However, as sawmill closures occur and the provincial AAC falls, potential biomass surpluses will be reduced significantly.

These and other perspectives and outlooks of the mountain pine beetle epidemic in the B.C. Interior are part of the revealing and comprehensive assessments contained in a new multi-client report published by International WOOD MARKETS Group. ***B.C Interior – Mountain Pine Beetle Attack: Impact & Outlook on B.C. Timber Availability & Wood Products Production*** is a strategic analysis that assesses the critical impact of the beetle attack on the key timber and wood products producing regions in B.C. The report is a result of the combined efforts of three B.C.-based consulting firms and four consultants:

- Jim Girvan (Management Decision and Technology Ltd.);
- Murray Hall (Murray Hall Consulting Ltd.); and
- Gerry Van Leeuwen and Russell Taylor (International WOOD MARKETS Group Inc.).

The report features a detailed and comprehensive regional wood fibre supply forecast of the B.C. Interior through 2028. Also profiled is a North American lumber outlook showing the impact of reduced lumber supplies from B.C. (and Canada). The proprietary "B.C. Fibre Model" has been applied to the eight B.C. Interior regions that have been most affected by the MPB epidemic to assess the impact that the MPB will have on key forest products, including: log supply; softwood lumber; plywood; and residual fibre (chips, sawdust, shavings and hog fuel) production. "Sawlog shortages caused by the mountain pine beetle could trigger the permanent closure of about 16 large primary sawmills and/or plywood production facilities within the B.C. Interior by 2018 (with more to follow)," said Jim Girvan, President of MDT Ltd. "As a result of differing proportions of pine within each region and the degree to which the MPB has affected the standing timber, the impacts of the epidemic are very different between the eight B.C. Interior regions assessed, with some being impacted significantly, while others have virtually no impact at all." This will not be good news for some B.C. communities, as the expected mill closures will be most concentrated in the Central Interior region.

The "MPB Sawmill Proforma Section" profiles the impact of changing lumber and grade recoveries as well as SPF dimension lumber prices on the economics of operating an "average" B.C. Interior sawmill that consumes only MPB-attacked lodgepole pine sawlogs. Six successive log qualities were used in the economic models to predict the earnings before interest, tax and depreciation allowance (EBITDA) in seven sawmill operating scenarios. The results show that EBITDA varies by about US\$100/Mbf between the best and worst log qualities, meaning that sawmills may not be economic and this could lead to mill curtailments and/or closures when the beetle-killed logs reach a certain age or shelf-life or when lumber prices are too low.

"The forecast sawmill and plywood mill closures are a function of the so-called "shelf-life" of the dead timber and the declining economics of processing dead logs," commented Gerry Van Leeuwen, Vice-President at WOOD MARKETS Group. "Each mill and/or company is approaching the situation of processing the dead timber differently, but the end result appears to be almost a 50% reduction in the long-term timber harvest and lumber production in the BC interior from its peak in 2005 – all from the mountain pine beetle epidemic". However, the shelf life can be extended significantly by good lumber markets and higher prices, but the reverse is also true.

Also analyzed in great detail are the projected residual wood chip, sawdust, shavings and hog fuel (bark) supplies in each region. "Residual wood chips will be surplus to demand in the short-term as sawmills return to more traditional operating levels," commented Murray Hall, President of Murray Hall Consulting Ltd. "However, the surpluses are very regional in nature. Over the longer-term, however, as sawmills close, residual wood chips will once again be in short supply within the B.C. Interior." Of note, major shortfalls in sawdust and shavings are also forecast within the B.C. Interior while hog fuel appears to be in balance provincially, but regional shortfalls and surpluses are significant. Opportunities may exist for wood pellets and perhaps biofuels in the short-term, but the long-term residual by-products supply will become heavily taxed by existing users.

"After some expected gains in the lumber markets between 2010 and 2013, the B.C. Interior lumber industry will need to begin reducing production and/or closing mills, and this impact on the U.S. market will soon be profound," explained Russell Taylor, President of WOOD MARKETS Group. "When incorporated with reduced Canadian timber supply and lumber production reductions that have also taken place in Quebec and Ontario, there will be a noticeable reduction in the Canadian lumber supply base where its share of U.S. consumption could plummet by a whopping 50% over the forecast period."

The mountain pine beetle (MPB) is endemic to parts of Western North America and it is normally kept in check by sustained cold winter weather (-30C). Without sustained cold winter temperatures since about 1995, the MPB has devastated the pine forests of the Province of British Columbia which is one of the world's largest pulp and wood products producing regions.

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