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PRESS RELEASE

Tight wood supplies in China cause lumber imports to surge, creating major opportunities for BC and Russian lumber exporters

Five-year outlook report estimates that China will need to double its lumber imports by 2015 to meet domestic demand

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B.C. and Russia are considered to be the two biggest winners as China's ongoing demand for lumber imports continues to expand. China's lumber imports almost doubled between 2000 and 2007 and are expected to double again in the period 2007 to 2010. By 2015, China's lumber imports are expected to almost double yet again. This outlook, along with a view of the key dynamics affecting China's expanding lumber and panel industries was released in the August issue of **WOOD Markets International Monthly Report** and were extracts from the strategic report, **The China Book – Outlook to 2015**.

Since 2008, Canada's lumber market share in China (almost all from B.C.) has grown faster than Russia's share, but Russia has still dominated the Chinese market through 2009. "In 2010, however," said Russell Taylor, President of WOOD MARKETS and co-author of the report, "Canada is expected to over take Russia by a wide margin with a leading softwood market share in China's lumber market of between 40-45%. In 2010, Canadian shipments to China could represent up to 13% of Canada's total softwood lumber exports and up to 20% of B.C. total lumber production, potentially reaching close to 2.5 billion bf – nominal (over 4 million m3 – net)." This compares to just 210 million bf – nominal in 2006, or a 12-fold increase in just four years.

China has seen fast growth in its sawn lumber output since 2001, but this has not been enough to keep up with surging domestic demand. Since 2007, Russian log exports to China have plummeted due to a rising Russian log export tax and higher delivered log prices, reducing China's log supply for domestic sawmills and plywood mills. Consequently, China has had to depend much more heavily on imported lumber from other countries to make up its deficit – and this is where B.C. has fit in. Russia's growth has come mainly from Chinese companies building saw mills in Russia and shipping all its production to China. Softwood lumber exports from the U.S., New Zealand and Chile are much lower than Russia or Canada, but their exports are also showing rapid growth rates.

"Despite Russian lumber having better wood quality," said Gerry Van Leeuwen, Vice-President and co-author of the report, "Canadian lumber is cheaper, kiln-dried and very consistent in size and presentation. As softwood lumber is used heavily in concrete forming for constructing high rises, the Chinese market is normally less concerned about over all lumber quality and more concerned about competitive prices. This has been a boon to Canadian lumber exporters, especially when U.S. lumber demand and prices have been dismal (the worst in decades)." China has also been a timely market for large volumes of lower grade lumber that have been produced from B.C. mountain pine beetle-killed timber. Since China mainly buys lumber on price and less on quality, SPF low-grade lumber has had a low price point and meets China's minimum requirements for lumber quality. China is still mainly a low grade lumber market and most of the higher quality lumber (including #2 Structural & Better grades) exported to China today is re-processed and re-exported as value-added finished products to western markets.

If North American structural lumber prices remain closer to the levels in July and August of 2010, China's appetite for higher quality SPF #2 & Better lumber is expected to expand yet again due to favourable prices, helping to raise the "floor price" for North American low-grade and perhaps structural lumber in today's weak U.S. market. "As a benefit," explained Russell Taylor, "lower North American lumber export prices will allow Chinese end users to expand their understanding of how and where North American lumber can be used successfully and price-competitively in China (from concrete forming and construction scaffolding to raw material feed stock for processing plants in the production of high-value interior finish products). So, the current bad news in the U.S. market may translate into improved market growth and expanding opportunities in China for Canadian lumber." However, usage looks to remain very limited in Chinese house construction and framing over the next two to three years until existing promotion programs for roof trusses and six-storey walkup apartments are able to achieve more of a critical mass, but at least a firm beach head has been established.

"Going forward," said Gerry Van Leeuwen, "the single issue that will have the greatest impact on how much softwood lumber market share each offshore country can achieve will be its competitive delivered lumber prices to China." China is now the world's second largest economy, second largest importer of lumber (after the U.S.) despite being the world's second largest and fastest growing lumber producer (slightly ahead of Canada in 2009). China is still expected to be the fastest-growing lumber producer, importer and consumer nation in the world over the next half-decade, with an average annual increase in lumber consumption of 5.1 million m3 (over three billion bf, nominal per year). Meeting the needs of its growing middle class will require huge raw material imports over the next five years. This fast-paced consumption growth is expected to have a significant impact on global wood demand, especially as the major global economies begin to emerge from the current economic recession.

WOOD MARKETS' *The China Book — Outlook to 2015* presents a large volume of detailed production, export, import and consumption information and outlooks. The report also addresses timber, lumber and 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. The forecasts to 2015 provide a clear picture of where China's wood products industry is headed. The projected continued growth will provide export opportunities to suppliers of logs and lumber who understand the dynamics and requirements of this market.

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