

PRESS RELEASE

Canadian (mainly B.C.) lumber exports to China increase by 96.6% in first half of 2011 compared to same period in 2010!

China poised to import approximately 35% of B.C.'s total lumber production in 2011.

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According to the latest import statistics from China Customs, Canadian lumber shipments to China (almost all from B.C.) increased by a whopping 97% in the first six months of 2011 over the same period in 2010. Chinese softwood lumber imports from Canada totalled 3.14 million m³ (about 1.8 billion bf - nominal) for the first six months of 2011 as compared to 1.6 million m³ (about 950 million bf - nominal) for the same period in 2010. Further details will be released in WOOD MARKETS' *China Bulletin* – August issue.

Canadian (mainly B.C.) lumber shipments are increasing so rapidly that total B.C. lumber shipments to China are likely to reach 7 million m³ (about 4 billion bf) or higher for all of 2011 based on the pace set in the first half of 2011. At this rate of shipments, it appears that China could import up to 35% of total B.C. lumber production in 2011! However, a major constraint to further growth could be in shipping logistics, such as container availability and port loading capacity, not to mention the current high lumber inventory levels in China that could also slow the gains in second half 2011 shipments.

By comparison, B.C. shipments to the U.S. market (depending on the nominal to net lumber conversion factors used) are expected to represent about the same volume of total B.C. lumber shipments in 2011 as China (i.e. 35%-40%). It should be noted that B.C. exports to China could be overstated based on the nominal to net conversion factor adopted.

The month of June, alone, saw the volume of Canadian (mainly B.C.) lumber imports rise by 17.4% over the previous highest monthly volumes set in March 2011. The rapid increase in Chinese demand for softwood lumber is expected to continue as the strong Chinese economy and a shortage of logs makes imported North American lumber an excellent and favourably priced alternative.

The continuing expansion of China's softwood lumber market continues to have a major and growing impact on B.C. lumber production and North American lumber prices. Due to continued poor U.S. housing starts and lumber consumption, China has provided a huge market opportunity for many sawmills in B.C., which were closed or curtailed in the 2007 to 2009 period - many have either started up or increased lumber production in the last two years as a result of China. The diversion of such a large volume of B.C. softwood lumber from an already oversupplied U.S. market has played a key role in lifting or supporting North American lumber prices at today's lumber production levels. While lumber prices have since moved off their earlier highs in the first quarter of 2011, the main driver allowing B.C. sawmills to stay in "the black" has been the surging market growth in China with mill net returns similar to those achieved in selling to the U.S. market.

U.S. lumber exports to China have grown at an even faster rate than Canadian lumber exports. Although U.S. lumber exports started from a much lower level in 2010 compared to Canada (594,000 m3 compared to 1.6 million m3 for Canada), exports increased by 118% to 1.3 million m3 (825 million bf - nominal) in the first half of 2011.

Although Chinese imports of sawn hardwood and softwood lumber from countries such as Russia, Indonesia and Chile have also increased dramatically in the last few years, it appears likely that Canada will become China's largest sawn lumber supplier in 2011 – replacing Russia, who has been the major sawn lumber supplier to China for many years. Based on first half 2011 results, China's total lumber imports will have increased by over 300% since 2006, or from 6.1 million m3 (2.6 billion bf - net) to about 20 million m3 (8.5 billion bf - net). This means that China will likely replace the U.S. as the world's largest sawn lumber importer in 2011.

At the same time, Chinese log imports are expected to increase by about 25% in 2011 over 2010 (from 34.4 million m3 to about 40 million m3). China's largest log suppliers are Russia (with declining volumes so far in 2011 as compared to 2010), New Zealand, the U.S. and Canada. In the first half of 2011, Canadian (mainly B.C.) log exports to China increased by 232% compared to the first half of 2010 (from 343,000 m3 to 1.14 million m3). With the rapid growth of Canadian (mainly B.C.) log exports, Canada is expected to become China's fifth largest log supplier in 2011 (up from ninth in 2010).

U.S. log exports to China have also increased by an impressive 160% in the first half of 2011 compared to the same period in 2010, or from 804,000 m3 to 2.1 million m3. The rapid growth of U.S. log exports to China has moved the U.S. up as its third largest log supplier in the first half of 2011 compared to the fifth largest supplier in the first half of 2010.

China's growing appetite for logs and sawn lumber is having a profound impact on the revitalization of the B.C. forest industry during a period when the U.S. housing market has been at its weakest point since the "Great Depression". Without the emergence of this important wood market in China, many B.C. loggers and sawmill workers would still be unemployed. B.C. softwood lumber exports to China also avoid the punitive 15% softwood lumber export tax that is charged on all exports to the U.S. It appears that the B.C. forest industry (and especially the B.C. Interior sawmilling sector) is moving closer to being less dependant on the U.S. market and to limit some of the uncertainty related to U.S.-Canada "border wars" that have been ongoing with the U.S. industry since 1980.

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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