

PRESS RELEASE

Highest North America sawmilling earnings in 2010 were achieved in Western Canada and the U.S. South, while poorest results were found in Eastern Canada; U.S. West was mixed

Global Cost Benchmarking Report on delivered logs, sawmilling and lumber in 32 countries and regions reveals global winners and losers as markets improve modestly in 2010 and Q1/2011, but weak lumber prices and/or rising log costs had the greatest drag on regional earnings.

August 23, 2011 — Vancouver, BC

Sawmills in the North American regions achieved some of the best – and worst – global financial earnings in 2010 and into Q1/2011 from improving market drivers as compared to the poor results in 2008 and 2009 from the aftermath of the global economic recession. The U.S. South had the best North American regional results (as it did in 2008), edging out the western Canadian SPF region. Even higher earnings were achieved in other countries, including South Africa, Australia and the Baltic States. These and many other financial and operating results, including a detailed profile of log and sawmill costs for both “average” and “top quartile” (or best) sawmills, are part of the comprehensive *Global Timber / Sawmill / Lumber-Sawnwood Cost Benchmarking Report—2010 & Q1/2011*, a biannual study researched and published by International WOOD MARKETS Group (in association with The Beck Group) that was released this month.

The six regions of Canada surveyed had the lowest global average EBITDA (earnings before interest, taxes and depreciation allowance) in 2010 - for the third consecutive year - of all global “average” sawmills. “Canada’s poor performance was due to a weak U.S. market, a strengthening Canada/U.S. exchange rate, and the impact of the Canadian lumber export tax on U.S. shipments,” explained Russell Taylor, President, WOOD MARKETS and the report’s coordinator. “Canada’s results were dragged down by Eastern Canada, which achieved the poorest results of all global regions surveyed - also for the third year in a row.”

The six U.S. regions surveyed collectively achieved some of the best global results in 2010 at “average” mills, with earnings at double the global average. “North America’s earnings (12 regions in total) achieved the same level as the global average,” said Gerry Van Leeuwen, Vice-President, WOOD MARKETS. A surprise from the survey was that the best performing region in North America was the U.S. Inland region, where 2010 earnings at “average” mills was supported by favourable log costs. For “top-quartile” mills, the B.C Interior just edged out one of the U.S. South sub-regions for the best North American earnings in 2010.

The next best regional results, after the U.S., occurred in Scandinavia/Western Europe (over the 11 countries/regions surveyed) and this was despite soaring log costs throughout 2010 and into 2011 (earnings in Q1/2011 were down sharply).

The Southern Hemisphere regions surveyed (Australia, New Zealand, Chile, Brazil and South Africa) achieved average earnings of all global “average” regions combined. However, while South Africa and Australia achieved the highest country earnings results, Brazil recorded some of the poorest results in 2010.

By comparison, the results for the same continents/regions were compiled for “top-quartile” sawmills which are larger, have more economies of scale, are more export-oriented, and can therefore achieve higher revenues and earnings. The global average EBITDA earnings for “top-quartile” sawmills were more than four times higher than for “average” sawmills in 2010.

In Q1/2011, global sawmilling margins eroded slightly, as European and Southern Hemisphere prices slumped while North America prices rose (before falling sharply at the end of the quarter).

A special analysis was prepared in this year’s report to highlight China’s ability to outbid U.S. west coast mills for sawlogs. As a result of China’s expanding “wood gap”, China has imported a massive and growing volume of saw logs from New Zealand, the U.S. and Canada over the last three years. “China’s growing appetite for saw logs has caused soaring log prices in these countries due to China’s status as the world’s lowest cost sawmill region (about one-fifth the cost of the next lowest cost global sawmilling region) and its ability to pay some of the highest prices in the world for saw logs,” explained Gerry Van Leeuwen. “The analysis shows that until global lumber prices increase and improve the ability of U.S. and New Zealand domestic sawmills to pay more for local sawlogs, China will remain a competitive threat to sawmills along the U.S. west coast and New Zealand (and to a lesser degree, the B.C. Coast).”

A second special cost analysis was conducted for “top-quartile” mills to assess how six different regions compete on a delivered lumber cost basis in the U.S. Gulf region, based on 2010 dimension lumber prices and sawmill costs. “The analysis shows that four regions (the B.C. Interior, the U.S. Pacific Northwest, the U.S. South and the U.S. Inland) have relatively similar margins on a delivered cost basis,” commented Russell Taylor. “As a high-cost region, Eastern Canada was marginally competitive. European mills have the highest log costs in the world (outside of China) and must also absorb the highest freight costs to access the U.S. market and were not at all competitive (and need substantial price increases of 30% or more before becoming competitive).”

The 2011 edition of the *Global Timber / Sawmill / Lumber-Sawnwood Cost Benchmarking Report* benchmarks log and sawmilling costs, lumber and by-product revenues, and EBITDA margins in 2010 for 32 producing countries and/or regions around the world, and includes an update for Q1/2011 for both “average” and “top-quartile” sawmills. This 265-page report is available by subscription and a summary of the report appears in the August issue of *WOOD Markets Monthly International Report*.

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