

PRESS RELEASE

The Likelihood of Huge Reductions in the BC Interior Timber Harvest from the Mountain Pine Beetle Epidemic will Create Winners, Losers and Casualties

New Dynamics & Revealing Outcomes will be Modeled and Profiled in a new BC Mountain Pine Beetle Update Report to be released in early 2012

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In the spring of 2010, International **WOOD MARKETS** Group released the first in-depth analysis and outlook on the impact of the mountain pine beetle (MPB) on the BC Interior forest industry. Based on the collaborative work of the project team and the detailed input and assessments of the three leading forest industry consulting companies in BC, the [BC Interior – Mountain Pine Beetle Attack: Outlook to 2028 Report](#) predicted that the BC Interior timber and wood products industry would be nearing its peak output by about 2015 as the full impact of the mountain pine beetle-killed timber took hold and despite the forecasted rebound in global lumber markets.

Key to the report was a conclusion that, as the MPB ran its course, a chain of events would slowly unfold: as markets improved from the doldrums of 2009, lumber and veneer production would increase in the BC interior; the BC annual allowable timber harvest (AAC) would eventually fall as government uplifts to the AAC to facilitate the salvage and recovery of dead pine were reassessed; sawlog and veneer log availability would be reduced due to dead pine shelf life; mills were forecast to close as a log shortage develops; BC lumber and plywood production would drop; pulp production would be threatened by declining wood chip availability; and log and lumber prices would rise as an expected shortage of U.S. lumber developed with the projection of rapidly rising U.S. demand.

While some recent reports simplistically suggest that the original WOOD MARKETS forecast could be too pessimistic, or that the BC forest industry would simply be saved due to improving U.S. and global demand for forest products with higher potential prices, recent events and new information regarding the impact of the mountain pine beetle suggests otherwise, supporting the earlier premise of the 2010 WOOD MARKETS forecast.

Looking back since the release of the 2010 Report in March 2010, many of the forecast impacts reported in the original *BC Interior: Mountain Pine Beetle Attack Report* have been realized, including:

- The release of many regional timber harvest adjustments (BC government AAC determinations). The [WOOD MARKETS 2010 Report](#) accurately predicted, or was even slightly optimistic, in virtually all of its predictions, suggesting that there may be a more limited sawlog supply in the face of growing log demand;
- Two permanent sawmill closures and one permanent plywood plant closure has occurred, again as forecast. However, the 2010 Report had predicted their closures by as much as 4 years later - again suggesting optimism in the original **WOOD MARKETS** forecast;
- A number of mill start-ups have occurred (which were included in the original forecast) resulting in increased lumber production as the industry recovered from the lows of 2009 – this too is as predicted in *WOOD MARKETS 2010 Report* and is consistent with the forecast (although these start-ups have occurred without the anticipated recovery in U.S. lumber demand and are fundamentally tied to the availability of MPB timber as well as the fit of BC lumber in export markets, especially China).

In addition, new information has surfaced that may influence the original **WOOD MARKETS Report** forecast, including:

- Global economic conditions have changed and are generally more depressed suggesting a slower recovery of global wood markets now expected to drag into 2013/14;
- China has grown to be a significant consumer of BC mountain pine beetle lumber;
- The recovery of the U.S. housing market remains stalled,
- Business to Japan has changed due to the earthquake and tsunami.
- The Canadian dollar has strengthened against the U.S. dollar, negatively impacting sawmill economics.

Similarly, new information has emerged about the status of forest and timber, lumber and plywood production in the BC Interior, including:

- New government and forest industry expert predictions regarding the progression of the MPB attack and the eventual volume of timber forecast to be killed by the beetle that may result in an improved mid-term AAC (less total pine forests that are actually killed by the beetle by 2020);
- Upgrades in the pulp and paper sector to enable their production of power which has fundamentally altered their residual wood demand and ability to pay for fibre,
- Expansion of the bio-energy and wood pellet business that should allow for improved economic extraction of more marginal MPB-killed stands,
- The belief that sawmills within the major area of mountain pine beetle-killed forests may eventually operate on reduced shifting as opposed to curtailing mills completely. This could allow for more incremental production during periods when demand or prices surge;
- The increased application of new manufacturing technology and new operating strategies that may allow some sawmills to operate longer than originally forecast;
- New downstream fibre users have emerged that will now compete for the remaining supply of MPB-killed timber to support their operations.

While there were a wide range of market variables, log availability and processing assumptions made in support of the *WOOD MARKETS 2010 Report*, a significant majority of them appear to be “on-track”. Today, our preliminary conclusion is that the basics of our forecast have not changed, but in fact, key parts of the forecast may have been somewhat optimistic in its timing.

So what has really changed????

As usual, factors impacting supply and demand continue to evolve globally (China, Russia, Japan, EU, currency rates, economies, etc.), in North America (housing inventory and new starts, U.S./Canada Softwood Lumber Agreement, U.S. West curtailments from log exports to China, etc.), and in BC (mill operating rates and new beetle-kill forecasts). All of these factors and developments will have an impact on BC timber and lumber demand from MPB-killed, plus non-impacted forests, and forecasts going forward.

However, if the trends seen in B.C since the spring of 2010 continue and are incorporated into the proprietary BC Fibre Model used to develop the timber harvesting outlooks in the first *WOOD MARKETS MPB Report*, the timing of the log supply and lumber production forecast does change somewhat where it suggests that there are different winners and losers (in terms of mills and companies operating) than what would have otherwise been reported in 2010. Essentially, some companies or mills may be better positioned to maintain or sustain reduced operations, while others, given the inevitable collapse in available sawlogs, will be the ones that close due to a lack of economic sawlogs. And the casualties are not just mills, but communities, loggers, service providers, etc.

With an update to the *2010 Report* now in progress that utilizes the proprietary BC Fibre Model to incorporate the changing trends, the project team is also looking for input from early subscribers to the 2012 Report to determine what scenarios and/or modifications to the basic assumptions they would like to see as part of the new report's output.

In order to develop the updated forests for the 2012 Report, the authors have a new and detailed modeling capability with the ability to take into account even more user-defined assumptions to allow for further analysis of:

- the resultant competitive positions of BC companies and mills in the wake of the MPB, including an assessment of each company's lumber production capability in the face of falling log supplies;
- forecast log demand tied to each BC companies' forest (government-granted) tenures that allows for an assessment of their ability to compete for the dwindling supply of open market logs;
- which sawmills, veneer and plywood mills could potentially close and when;
- the type, quantity and availability of forest-based biomass that may flow from the beetle killed forests that support downstream pulp, pellet, panel board and power producers; and;
- detailed assessments of pulp mill fibre supply and forecast delivered costs.

This new modeling, together with the existing capability to incorporate any user defined assumption covering all aspects of the industry (shelf-life, operating rates, forecast mill closures, AAC reductions and more) can now provide a new option for current and new *WOOD MARKETS'* report subscribers to interactively adjust the key input variables to specifically forecast the impacts of the MPB harvest on both primary and downstream fibre users in BC on a sensitivity analysis basis. In essence, we can customize outputs to suit user defined assumptions in an interactive format within the BC Fibre Model.

These and other perspectives and outlooks of the mountain pine beetle attack on the BC Interior, including a BC and North America lumber production outlook to 2030, will be part of the revealing and comprehensive assessments contained in the new and updated multi-client ***BC Interior: Mountain Pine Beetle Attack Report – Outlook to 2030*** to be published by International WOOD MARKETS Group in the second quarter of 2012.

The 2012 update report will once again be the combined efforts of three leading BC-based consulting firms and four experienced consultants including:

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

This report will be further augmented with the release in mid-2012 of a new outlook for China in WOOD MARKETS' ***China Book: Outlook for Logs and Lumber to 2017***. The role of BC Interior lumber as well as Pacific Coast and Pacific Rim logs and lumber will be integrated into the third edition of the China Book report and will include benchmarking analysis on suppliers to China from WOOD MARKETS' fifth edition of its 2011 ***Global Timber / Sawmill / Lumber Benchmarking Report***.

For further information on 2012 BC Interior: Mountain Pine Beetle Attack Report, please contact:

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This press release can also be viewed at <http://www.woodmarkets.com/pressreleases.html>