Pruned Pine Timber Trends: Supply vs. Demand Balance (An Outside Opinion)

For: FIEA Pruned Pine Conference
     June 29, 2004 – Nelson, NZ

By: Russell E. Taylor
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and
Managing Director
INTERNATIONAL WOOD MARKETS RESEARCH INC.
Vancouver, B.C., Canada

Presentation Outline

1. Southern Hemisphere Plantation Pine (Clearwood) Supply vs. Projected Demand
   Unpruned Pine
   Pruned Pine – Timber & Clearwood

2. Strategies & Issues

3. Opportunities & Outlook
Global Plantation Pine & Pruned Pine Trends

The Reality Today (as we have predicted since 1997):

• Global Plantation Pine Supply >>>>> Demand
• Global Plantation Pruned Pine Supply > Demand
• Global Log/Lumber Price Trends = Flat to Lower.

Other Realities:

• Plantation Pine Investments: huge write downs.
• Strength qualities issues in lumber.
• Competitive market conditions

Key Issues for Pruned Pine

• Growing it & pruning right is one thing.
• Turning it into a profitable, low cost business is a lot more complicated!
• Challenges lay ahead for plantation pine growers and producers - as well as for pruned pine.
• Challenges are in expanding product line (logs vs. lumber vs. finished products).
• Challenges in expanding markets and marketing to expand end user demand.
Some Outside Opinions

- Sometimes “outside opinions” can be more direct at the heart of problems or issues…

Key Issues for Pruned Pine

An Outside Opinion:

- “The stumpage rate in New Zealand has been too high and that has a lot do with the lack of investment in sawmilling and wood processing. As a result, New Zealand is 20-30 years behind where they should be.”

- “The New Zealand forest owners and foresters are the ones that have ruined their manufacturing industry.”

- “Cost structures in New Zealand and Australia are still too high.”
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Brazil, So. Africa, Chile, NZ = Leading Plantation Pine Growers

So. Hemisphere Pine Plantations
(Million Hectares - 2003)

- Brazil
- Chile
- Argentina
- New Zealand
- South Africa
- Australia
- Uruguay
- Other So.H.

CLEARWOOD (PINE) LUMBER, MOULDING & MILLWORK SECTOR
OUTLOOK TO 2008
THIRD EDITION • AVAILABLE DECEMBER 2003

R.E. Taylor & Associates Ltd.
WOOD Markets

Clear Wood Report
Available Early July 2004
Southern Hemisphere Pruned Forests

Ingredients for Success:

• Payback on Silviculture (Pruning/Spacing/Thinning/etc.) & Land Investments!

• Balanced Mix of Products, Markets & Customers (Certified Forests help).

Pruned Radiata Pine in New Zealand:

• Harvest at age 28-30;

• Logs are normally consistent in size & quality;

Pruned Radiata in Other Countries
South Africa:
Another Source
For
Clear Pine
Lumber

Some Logs
Yield 75% Clear
(Shop & Better);

Some Logs Yield
50% D & Better
Clear Recovery!

(Same in New
Zealand & Chile)

The Dilemma: Pruned Pine Growth vs. Market Fit


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The Dilemma: Clearwood Pine Lumber Output vs. Market Fit.

Southern Hemisphere Clearwood: Value-Added/Finished Product Strategies

Significant expansion is still going on:

- Chile – harvest increasing, new sawmills, new panel plants, new moulding & door plants.
- Brazil & New Zealand – having a harder time.
- South Africa – strong currency is an issue but a strong domestic market is the savior.
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US Door Imports Rising

US Imports of Wood Doors & Frames

Source: USDA FAS

Key Issues for Pruned Pine

- Who is the low cost log harvester??
- Who is the low cost log processor??
- Who is adding the value and the margin to finished products??
- Who is moving up the supply chain to the end user??
- Who is doing the best marketing in key markets??
- Who is implementing a business plan (vs. defensive strategies)??
- Who is earning their cost of capital and who will earn it in the next 5 to 10 years?

- There are winners and losers....
So. Hemisphere Plantation Pine: A Major Log Supplier to China?

♦ Can grow large diameter pruned logs in 30 years that yield higher clear volumes than US Ponderosa Pine 200+ year-old trees;
♦ New Zealand’s expanding radiata pine pruned and unpruned harvest & wood products is a good fit with China.

China’s Surging Log Imports

Source: China Customs Statistics; USDA-FAS '03 & '04 Estimated
Excess supply has developed of plantation pruned and unpruned pine logs & wood products.
Commodity pine products have filled up most of the world’s demand – so far…
Challenge is in expanding markets, expanding product lines, and finding new opportunities – not that easy…
Growth in all products – lumber, plywood, MDF, PB, mouldings, millwork, doors, etc…
Many plantation pine companies are restructuring, reviewing or redefining their export strategies.
Outlook is cloudy – lower prices are predicted as the battle for market share is on…
Russell E. Taylor, RPF, MBA

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We are co-sponsoring a China Import/Export Conference:

Dalian, China

Oct 26-29, 2004
## Selected Forest Industry Clients: CANADA

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<th>Canadian Forest Products</th>
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<td>Clearwater Forest Prod.</td>
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<td>Noranda Forest</td>
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## Selected Forest Industry Clients: OUTSIDE of CANADA

### SOUTHERN HEMISPHERE

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### USA

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- Steel Studs
- Engineered Wood
- European & Southern Hemisphere Imports

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About: INTERNATIONAL WOOD MARKETS Research Inc...

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