

Decisions Lead To Growth

What's In This Issue...

- Decisions Lead To Growth.....page 1
- Canada's Own US South.....page 1
- BC Lumber Exports – Japan Is Now Bigger Than Chinapage 3
- Global Lumber Prices Resetting – Market Power Shifts to Buyerspage 4
- BC Coast Forest Industry Metrics.....page 7
- BC Interior Forest Industry Metrics.....page 9
- BC Forest Industry Metrics.....page 10
- BC Forest Industry Metrics – Quarterly View.....page 11
- Mill Watch.....page 12
- The Radar Screen.....page 13

In the last issue, I had announced the decision to continue publishing the *View From The Stump* on a schedule and begin asking for paid subscriptions. Certainly, one of the best ways to test the value of a product is by asking for payment in exchange. I am very humbled by the response so far, reaffirming that I have

made the right decision to “jump into this with both feet.”

Ironically, publishing a September issue was not on the commitment schedule but I am excited to show readers the expanded information that has been added. I could not wait until October.

New changes include greater details on trends for each major region, the **Coast** and **Interior**, as well as the BC provincial summaries showing data on a **monthly** and a **quarterly** basis. Also, there is a new section called the “**Mill Watch**” to track changes in mill capacity and production.

In this issue, I take a high-level look at the difference in investment opportunities between BC and Saskatchewan and provide a brief glimpse at BC lumber exports

Also, I am glad to have once again *Russ Taylor Global – Wood Business and Market Consulting* contribute another issue, this time on global lumber prices. Thanks Russ!

Canada's Own US South?

By David Elstone, Managing Director, Spar Tree Group Inc.

In the second week of September something happened which has not occurred for a very long time with any Canadian provincial government – the Saskatchewan government announced new timber allocations - an estimated 25% (~2 million m³) of the province's allowable annual cut – to grow their forest industry.

All four companies receiving these timber allocations (as detailed in the “**Mill Watch**” section) have capacity investments of almost \$1 billion. The timber allocations will be used for two sawmills to expand production, a

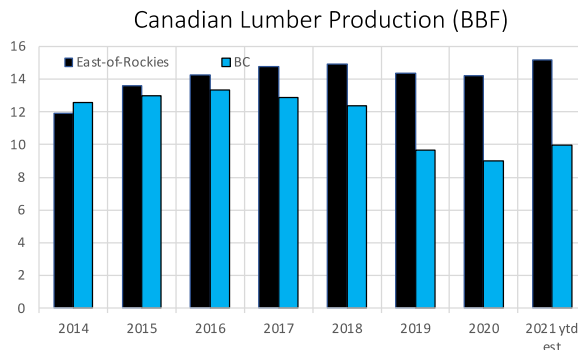
restart of a long-closed pulp mill and the building of a new OSB plant. Saskatchewan's



announcements make me want to call this province the “*US South of Canada*” because I cannot recall in the last decade when else such a large active expansion of the Canadian industry has taken place.

Cheers for Saskatchewan! I hope it all comes to fruition.

While still the largest lumber producing province, BC's stature has been shifting relative to the rest of Canada, otherwise known as "East of the Rockies."



BC lumber production has been declining for some time. The above chart shows that from 2016 to 2021 BC lumber production has declined an estimated 3.3 billion board feet (bbf). In contrast, the rest of the Canadian provinces have since 2014, in aggregate, increased production by an estimated 3.2 bbf. Keep in mind announced curtailments for Q3 due to market conditions etc. will mean the 2021 year-to-date estimates (which are a simple doubling of the first six months of production) will likely over-estimate production for 2021.

The offsetting of decreases in BC by increases in other provinces has resulted in a slight increase in overall Canadian lumber production from 2014 at 24.5 bbf, to 2021 at 25.1 bbf (estimated).

Despite record SPF lumber prices in 2020/2021, BC production did not leap upwards. One of the main constraining factors has been limited timber supply in the BC interior due to the mountain pine beetle epidemic.

Lumber production appears capped at 10 bbf in BC (coast + interior) and not likely to increase for the next half century. When you do not have the trees (as in timber supply), the price of lumber does not matter.

One might conclude that the geographical limits of economically feasible timber supply in the BC interior were tested with this last price rally given the record margins earned by sawmills. If lumber prices settle at levels that are not high enough relative to the costs of available timber supply, another drop in lumber production could take place.

With the mountain pine beetle epidemic limiting BC timber supply for the foreseeable future, there lies the difference between BC and other regions, like Saskatchewan or the US South. Major capacity investments will go elsewhere as BC government policy cannot just physically increase timber supply in the short

SPAR TREE
GROUP

SUBSCRIBE TO VIEW FROM THE STUMP

[CLICK HERE](#)

AVAILABLE FOR CONSULTING ENGAGEMENTS
specializing in business planning, market research &
analysis, and working with First Nations' businesses

AVAILABLE FOR CORPORATE PRESENTATIONS
on the BC Forest Industry & Market Updates

term, unlike Saskatchewan where provincial forests were underutilized. Furthermore, BC has some of the highest delivered log costs in North America in part due to its stumpage system (see August 2021 issue of *View From The Stump*).

Reduced options due to a constrained timber supply also explains the reasoning behind why

the BC government continuously pushes for “value-added manufacturing” (it is just too bad, no one really knows what value-added means).

The challenge for the BC government will be to develop unique policy that supports the industry while timber supply is shrinking (and to hopefully not make further arbitrary supply reductions i.e., politically motivated old

growth timber deferrals). So far, much is still unknown on such policy intentions (more to come hopefully on this subject in the next issue).

Ironically, all four companies receiving timber allocations in Saskatchewan are BC-based companies.

BC Lumber Exports – Japan Is Now Bigger Than China

By David Elstone, Managing Director, Spar Tree Group Inc.

China rose to prominence as BC’s (and Canada’s) second largest market for lumber following the collapse of the North American forest industry in 2008-2010. China’s entrance as a new major market was a phenomenal growth story for BC lumber exporters.

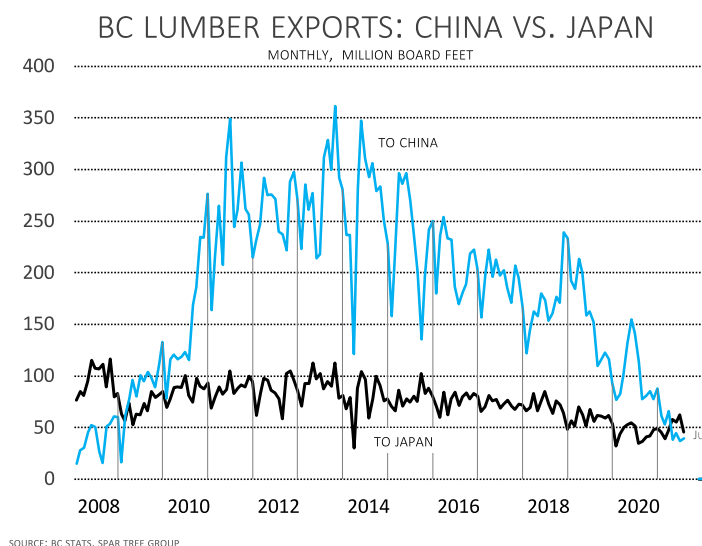
China has been a strategic market for BC lumber exporters, especially as a relief valve for low-grade SPF lumber during times of weak US market prices.

The combination of reduced BC lumber production as well as decreasing use of mountain pine beetle killed pine along with the rise in availability of alternative sources of lumber for the Chinese market has contributed

to a decline in BC lumber exports to China. Also, record US market margins during the 2020/2021 rally likely saw Canadian exporters redirecting volume to the US market.

The result is monthly export volumes to China have declined to levels lower than to Japan. So much that Japan has regained its position as BC’s number two market destination for lumber exports (on a year-to-date comparison of the two markets).

With lower US market prices, China’s market position may once again shift. There is more discussion on lumber prices and each market’s relative margins in the next article provided by Russ Taylor.



Global Lumber Prices Resetting – Market Power Shifts To Buyers

By Russ Taylor, President, RUSS TAYLOR GLOBAL

Contact: russtaylor@russtaylorglobal.com
www.russtaylorglobal.com

The global pandemic has created a wild lumber market since April 2020. We all know the crazy lumber prices that occurred over this time in the US market, but other international regions are seeing somewhat different trends.

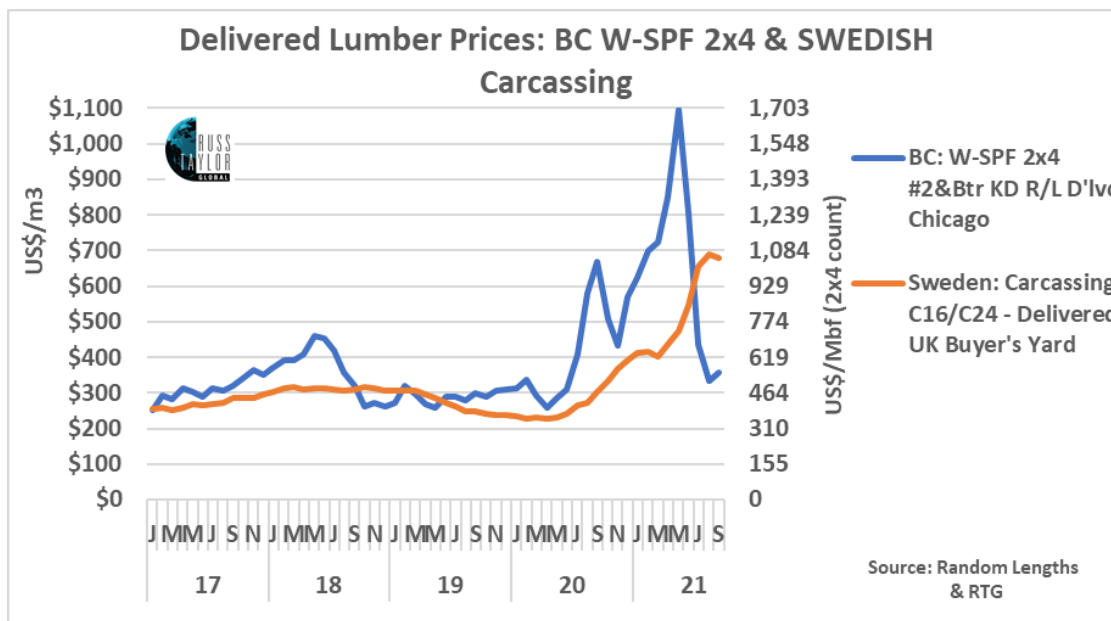


Following the peak of US lumber prices in late May 2021 at US\$1,630/Mbf (using the benchmark W-SPF 2x4 #2&Better R/L, FOB BC mill; US\$1,053/m³, net) and the subsequent price collapse through mid-August to US\$385/Mbf (US\$249/m³), lumber prices have slowly clawed their way higher to US\$472/Mbf (as of Sept 17). While no one could have ever predicted this super price spike and subsequent collapse, the outlook is for improving US prices into fourth quarter before a likely correction occurs later in the year. In looking into 2022, prices could be in the US \$600/Mbf range at times in Q1 and Q2 before a more balanced supply and demand situation occurs with lower prices. Considering that the peak US lumber prices prior to 2018 was US\$470/Mbf (1999 and 2004; nominal prices), current and projected price levels should look extremely attractive to most North American lumber mills. **However, not in BC, as explained later.**

EUROPE

In Europe, the situation is like the US but with a different price cycle. While US prices took off very quickly at the start of the pandemic in 2020-Q3, European prices lagged and grew slowly as domestic as well as offshore market conditions took longer to crystallize. Using Swedish carcassing lumber prices delivered to the UK for perspective (see graph), prices increased about 50% through 2021-Q1, before accelerating and peaking in August of 2021. This is partly due to the nature of the European industry where much of the business involves quarterly with some monthly pricing, and this takes some of the wild fluctuations out of the market. Nevertheless, volatile pricing did occur as buyers and sellers realized that there was an extreme shortage of supply in the market and spot market prices soared.

Like the US lumber market, the European prices for some commodity products peaked in August (especially in Central Europe), some peaking in September (as in Sweden), and non-commodity products will likely peak in fourth quarter. With the European market prices lagging those in the US by about three months, the opportunity for Europeans to continue exporting to the US market (that was active and lucrative for much of the last year) has now vanished. On one hand, this is helping the US market stabilize, as European exports to the US have been reduced from negative export returns. High European prices are keeping more supply in the European market and that, in turn, will accelerate the ongoing drop in prices there.



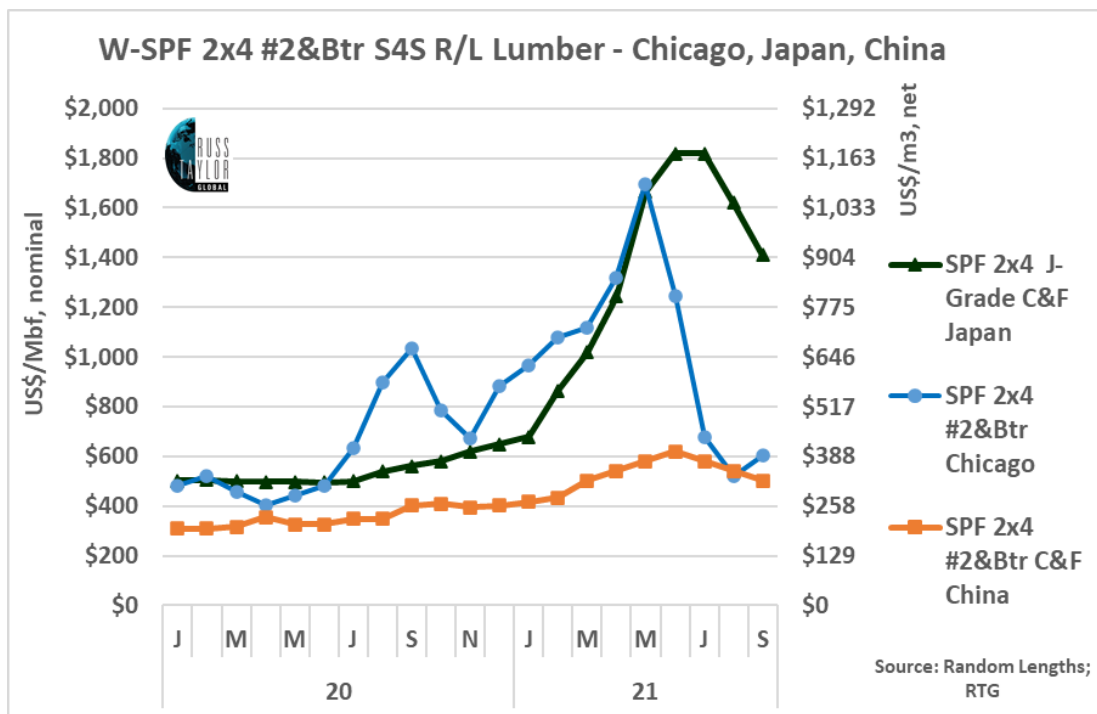
JAPAN & CHINA

In Asian markets, a somewhat similar trend to Europe is evident in Japan, where prices peaked two to three months after the US market peak (see graph). Canadian exporters were able to elevate and hold 2x4 W-SPF J-Grade in Japan at very high levels since lumber supplies became tight going into 2021-Q3 negotiations. However, 2021-Q4 negotiations will result in much lower price levels given the huge spread between Japan and US prices currently.

The Japanese have voiced some concerns that the very high SPF prices demanded by exporters for 2021-Q3 may result in a longer-term reduction in the market share of SPF in Japan. Some Japanese buyers were dissatisfied with the prices they had to pay that, in turn, were driven by the spike in US market prices. Japanese buyers were able to find some alternate sources of 2x4 lumber, including Russian and European supply, so the market share dynamics could shift in Japan from this situation. Despite all this, SPF J-grade is still in tight supply.

In China, SPF 2x4 #2&Better prices did theoretically increase by almost 50% (see graph), but very little volume was transacted. The Chinese buyers have diversified their supply to many global sources and were able to find alternatives, including using lumber produced from imported logs at much lower costs than imported lumber. While this did create some supply shortages and low inventories in China at various times in 2021, Chinese buyers were able to avoid the over-priced lumber situation that the Japanese are currently in. Exporters suggest that Canadian exports to China have surged more recently with Chinese buyers back to purchasing imported SPF and other lumber since prices are now affordable.

These price trends highlight how different markets work and how exporters can gain market clout in tight supply situations and, conversely, how the buyers take over when prices get too high, and the market power switches from seller to buyer.



BC SITUATION

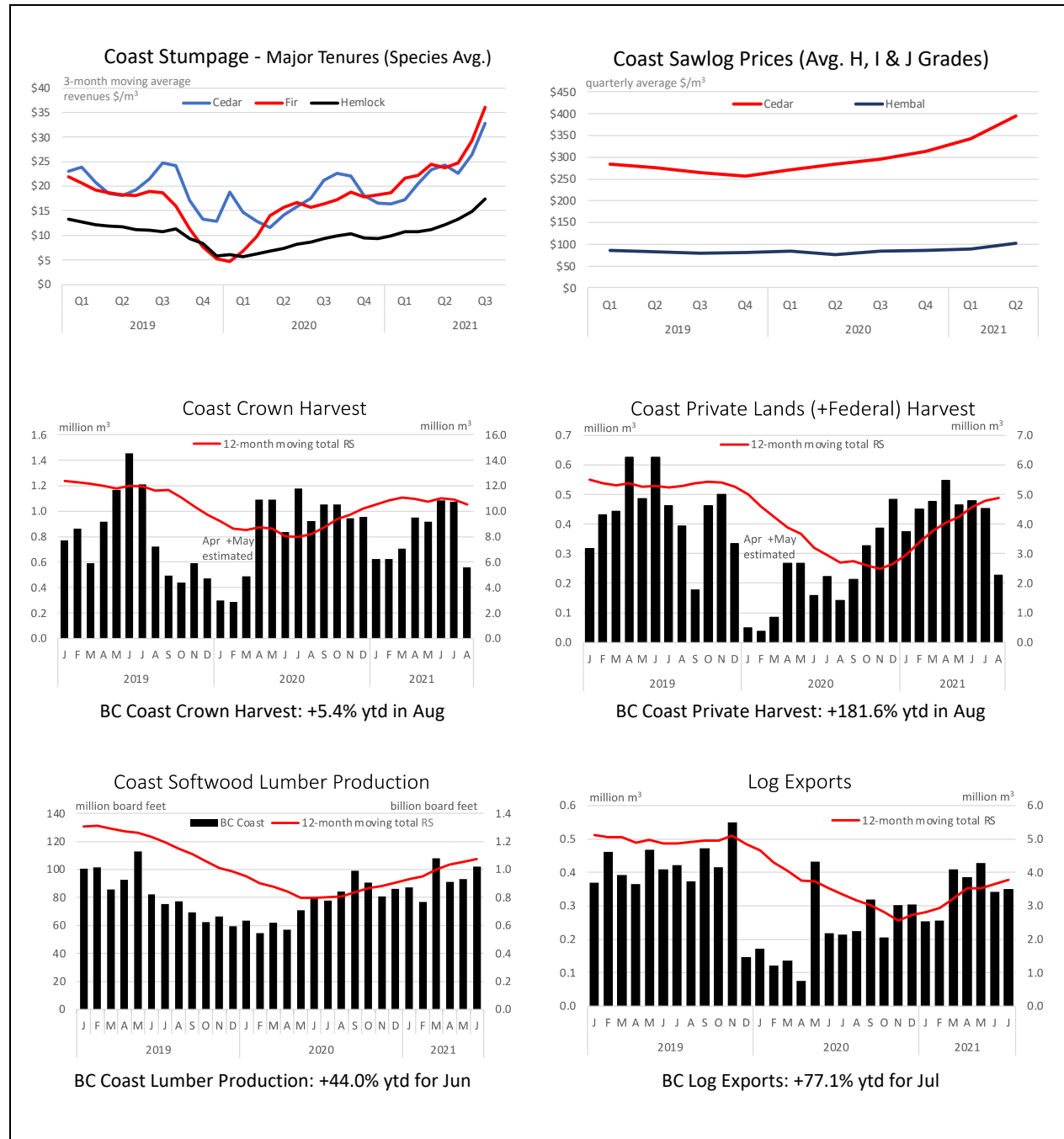
What does all this mean for BC? For BC Interior SPF mills, they are now rebuilding order files and trying to move prices higher. Late September and early October are usually weak periods for lumber prices, so the fact that prices are moving higher in mid-September is good news. However, the cost structures of the BC interior sawmills are the worst in North America right now, mainly driven by the government’s timber pricing formula (i.e., stumpage) and lag that does not yield fair stumpage during periods of volatile end-product prices.

My estimate of BC Interior breakeven EBITDA prices at the lowest cost mills during 2021-Q3 is in the US\$500 to 550/Mbf range on a 2x4 SPF #2&Better basis (print price); cash costs for these best mills would be up to 10% lower, so around current prices. However, on October

1st, stumpage rates on crown forest licenses are expected to increase by around \$10/m³ and in December, the US import duties are scheduled to rise from 9% to about 18%. This means that the SPF 2x4 breakeven print price could rise to between US\$550 and \$600/Mbf. As a result, BC mills may be facing further curtailments in 2021-Q4 unless prices rise by up to US\$100/Mbf, or until stumpage corrects to much lower levels starting in 2022-Q1.

BC Coast mills are also negatively impacted by higher government stumpage rates. After high volume shipments to the US market in the last year, Coast mills are shifting to their more traditional domestic and offshore markets and will not feel the full bite of lower US lumber prices (and avoiding US duties) as the Interior is facing.

BC Coast Forest Industry Metrics





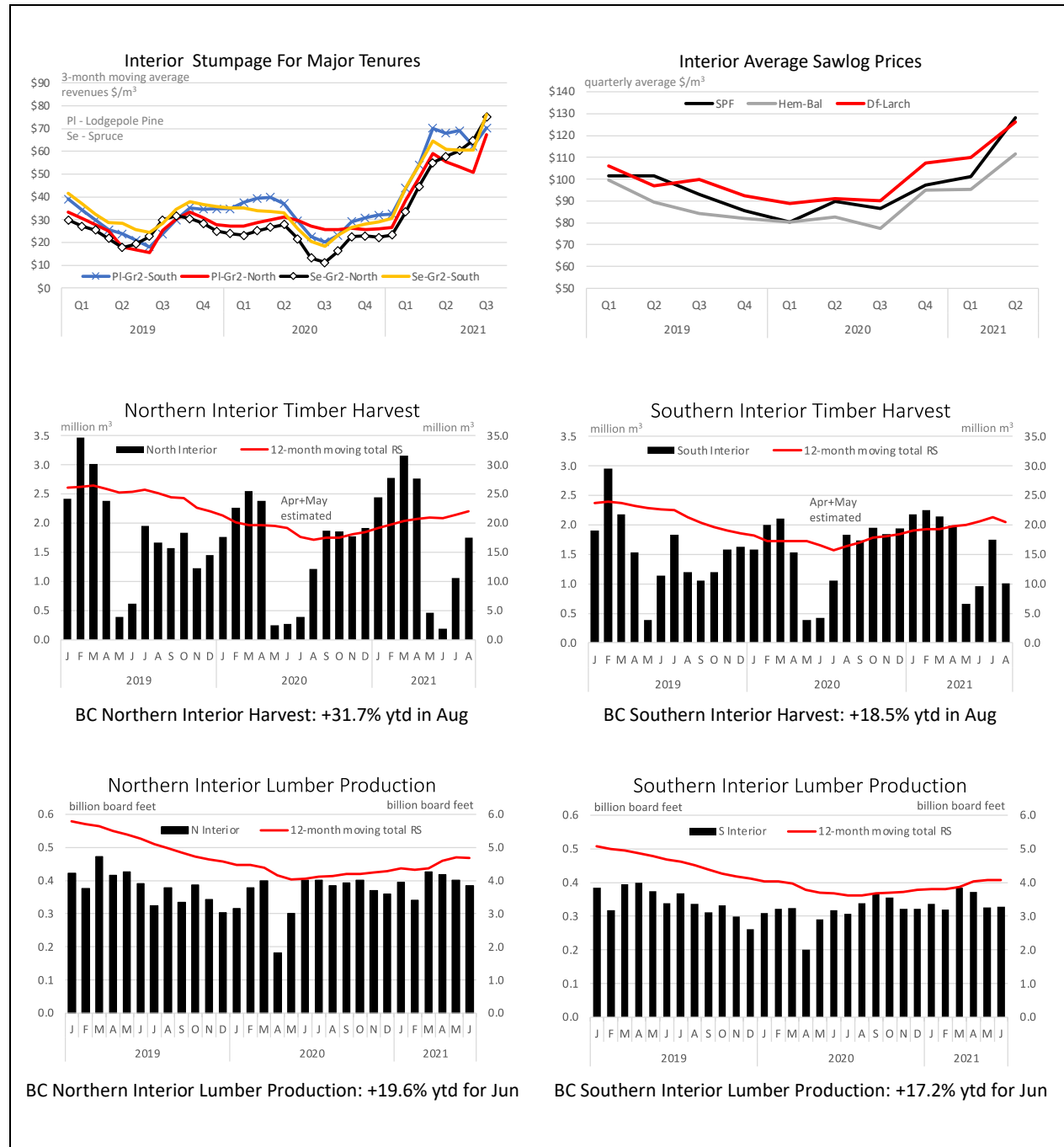
Value what you see?
...Subscribe to
View From The Stump

- 1 year subscriptions, 6 issues, emailed Pdfs
- **Early Bird rate C\$300 (+GST)
offer ends October 31, 2021** 
- Regular rate C\$500 (+GST)
after October 31, 2021
- Pay with PayPal
(no PayPal account required: check out as a guest)

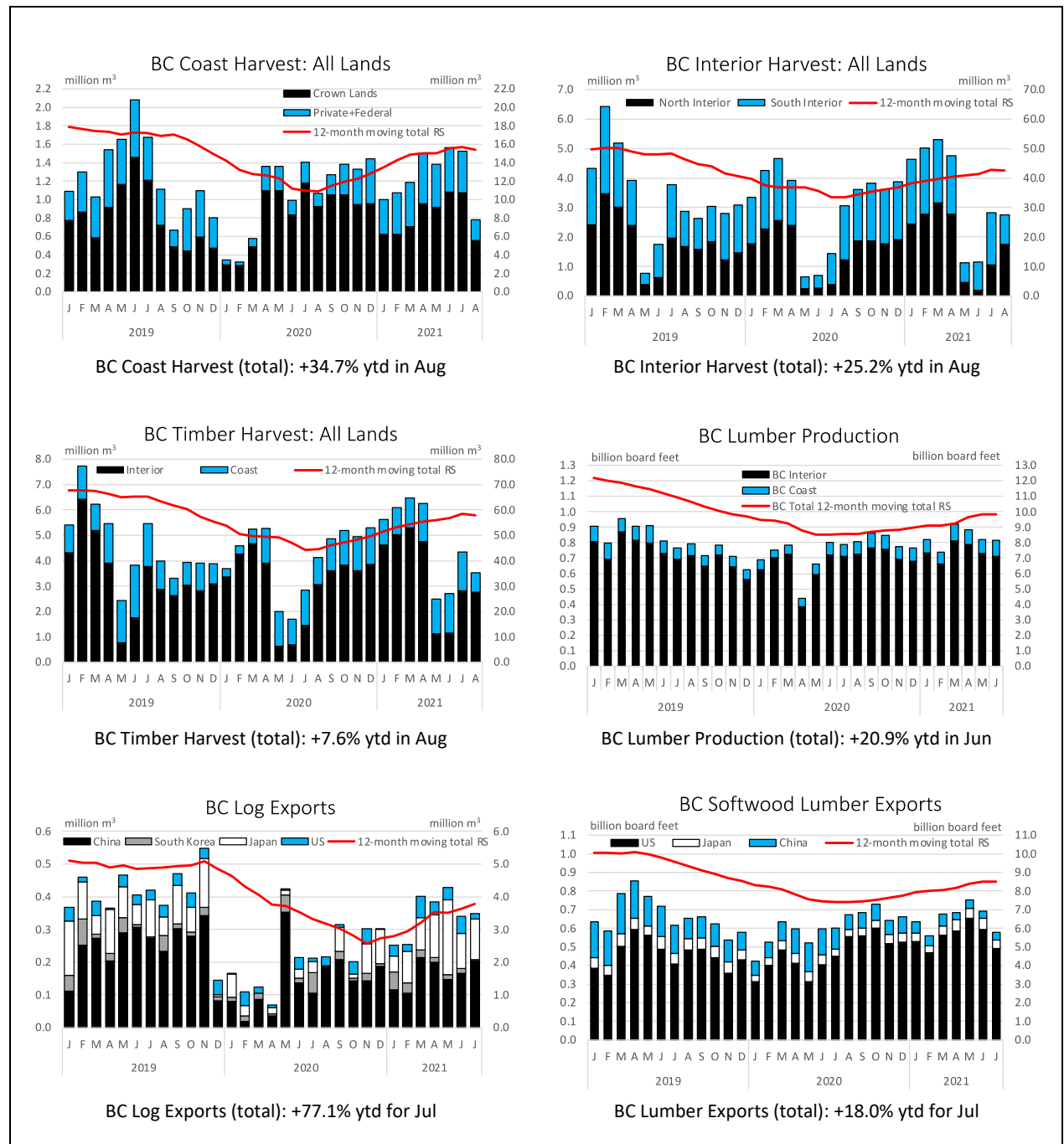
CLICK HERE TO SUBSCRIBE



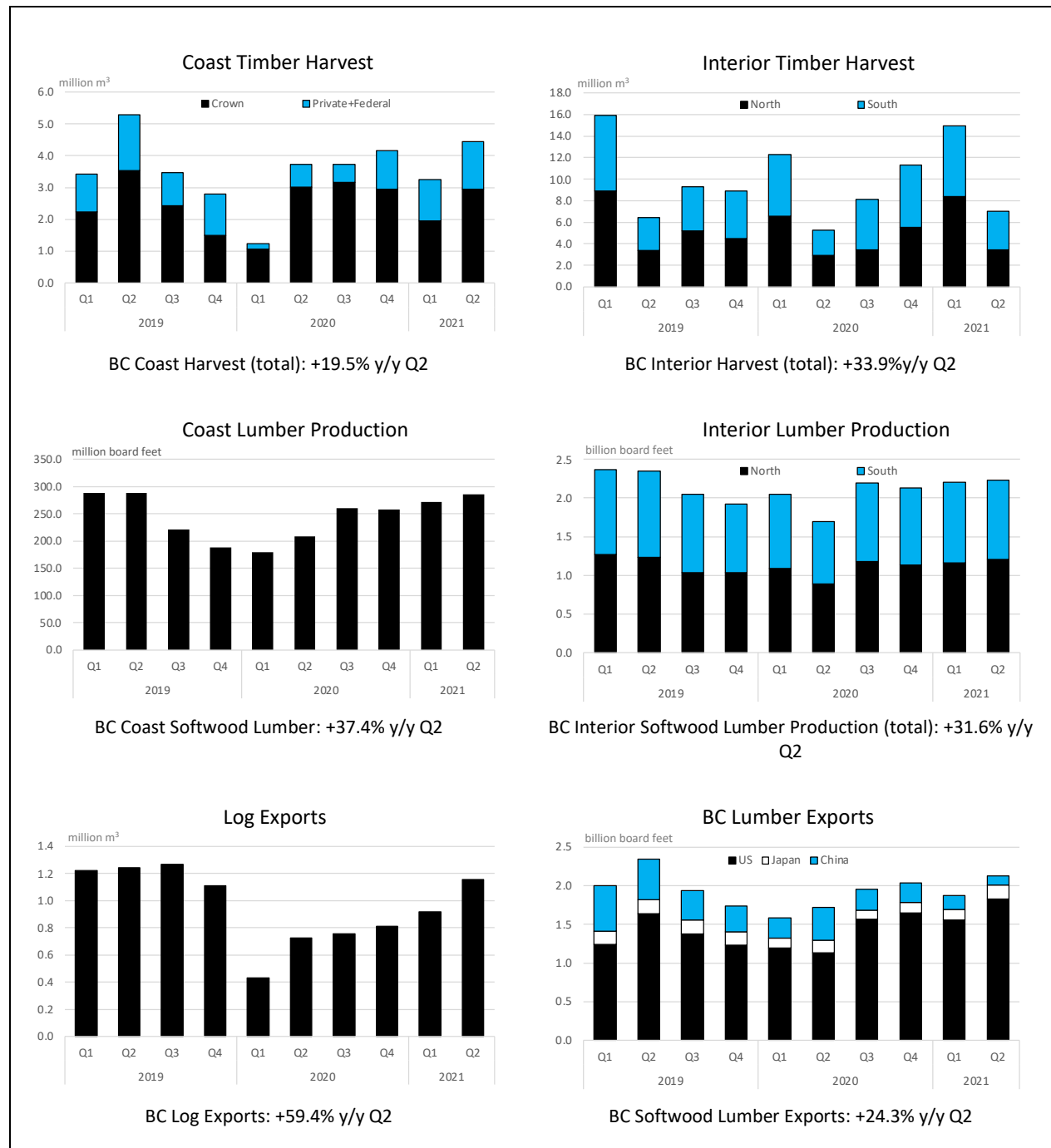
BC Interior Forest Industry Metrics



BC Forest Industry Metrics



BC Forest Industry Metrics – Quarterly View



Mill Watch

Company	Mill	Status	Effective	Change	Comments
Interfor	BC interior sawmills	Interruptions	30-Aug-21	Minimum of 50 million board feet in August, possibly further downtime in September and beyond	Due to wildfires and other log supply factors
Canfor	BC sawmills	Reduced operations	30-Aug-21	Reduced to 80% of production capacity and operating schedules	Until demand and pricing meaningfully improve
Conifex	Mackenzie, BC	Temporary curtail	23-Aug-21	Curtial for two weeks	Record high delivered log costs and collapse in lumber prices
West Fraser	North America - wide	Reduced output for lumber and panel mills	First two months of Q3	Between 5% and 10%	Slowing orders, resins availability, transportation interruptions and inventory
Carrier Lumber	Big River, SK	Increase lumber production	n/a	Sawmill upgrade	Due to new timber allocation
Dunkely Lumber	Carrot River, SK	Increase lumber production	Fall 2023	Addition of 100 million board feet	Due to new timber allocation
Paper Excellence	Prince Albert, SK	Restart of pulp mill	Fall 2023	Addition of 350,000 tonnes	Due to new timber allocation
One Sky Forest Products	Prince Albert, SK	New OSB mill	n/a	Addition of 600 million sq/ft 3/8" basis	Due to new timber allocation
Red Leaf Pulp	Regina, SK	New non-wood pulp mill	Q2 2023	Addition of 182,000 tonnes	Uses wheat straw
San Group	Terrace, BC	New sawmill	n/a	50-60 million board feet	Early concept stage
San Group	Coulson Mill, Port Alberni, BC	New second line	n/a	New line	Addition of small log line

The Radar Screen....a summary of announcements including new government policies that you must have on your radar screen as they will affect the BC forest sector supply chain:

Modernizing BC's Forest Sector – recent announcement outlining the Province's intentions for future forest policy change.

Contractor Sustainability Review – on June 10, 2021 changes were finally announced to the Timber Harvesting Contract & Subcontract Regulation (aka Bill 13).

Old Growth Strategic Review – the report is now public! Upon release of the report, the BC Government moved immediately to defer harvesting of nine areas around the province. The number of **deferrals** are increasing with total area of old growth forests at 196,000 ha.

Softwood Lumber Dispute – on May 21, 2021 the U.S. Department of Commerce released its preliminary determination for the Second Administrative Review (AR2) in antidumping duty (AD) and countervailing duty (CVD) investigations of imports of certain softwood lumber products from Canada. The preliminary combined rates vary for selected companies, with non-selected companies facing an AD+CVD rate of 18.32% effective November 24, 2021, when the final determination will be made for AR2, which was for the period of January 1, 2019 to December 31, 2019 (when lumber prices were substantially lower). This preliminary rate is double the current rate.

Support for Coastal and Interior Forest Workers – Programs are now in place to support contractors, workers and communities impacted by indefinite

and permanent mill closures in B.C.'s Interior and Coastal region.

Coast Logging Equipment Support Trust – offers bridge financing from a \$5 million fund for coastal contractors – the majority of funds remain unused.

BC Carbon Tax – carbon tax increased effective April 1, 2021 rates of 9.969 ¢/litre for gasoline and 11.71 ¢/litre for diesel.

BC Increased Employment Incentive – as part of the BC Economic Recovery Plan, a tax credit for businesses hiring new employees in 2020. Deadline for applying December 31, 2021

BC PST Rebate on Select Machinery and Equipment – as part of the recently announced BC Economic Recovery Plan, a 100% PST rebate on equipment purchases – **ends September 30, 2021**.

Russia To Ban Coniferous Log Exports – Putin requested a complete ban effective January 1, 2022. As well, he has ordered a subsidization program for wood processing facilities effective January 1, 2021. *CAUTION - unverified Russian tariff increases on log exports back in 2008 triggered China to look to BC and other countries for logs and lumber.*

© Spar Tree Group Inc., 2021. All rights reserved.

Disclaimer: The editorial views, opinions, estimates, and projections expressed herein are those of Spar Tree Group and are subject to change at any time without notice based on market and other conditions. Spar Tree Group makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions that may be contained herein and accepts no liability whatsoever for any loss arising from any use of or reliance on this report or its contents. Opinions reflect judgment at the time and are subject to change. The text, images and other materials contained or displayed on any Spar Tree Group's product, service, report, e-mail or website are proprietary to Spar Tree Group and constitute intellectual property. No material from any part of any Spar Tree Group reports or website may be downloaded, transmitted, broadcast, transferred, assigned, reproduced or in any other way used or otherwise disseminated in any form to any person or entity, without the explicit written consent of Spar Tree Group. All unauthorized reproduction or other use of material from Spar Tree Group shall be deemed willful infringement(s) of Spar Tree Group's copyright and other proprietary and intellectual property rights...in other words, please respect our research and use the honour system, thank you!

SPAR TREE
GROUP

[CLICK HERE](#) TO SUBSCRIBE
TO VIEW FROM THE STUMP

Publisher & Editor: David Elstone
Guest Contributor*: Russ Taylor
Contact Info:
e. david@spartreegroup.com
t. 604-740-2814
w. spartreegroup.com
**perspectives and opinions of Guest Contributors are not necessarily that of Spar Tree Group*

Subscription rates (1 year, 6 issues, email [pdf] only, anywhere in the world):
Early Bird rate C\$300 (+GST)
-offer ends October 31, 2021
Regular rate C\$500 (+GST)
-after October 31, 2021
Advertisement & Corporate rates
-contact Spar Tree Group

Publication Schedule:
October 2021
November 2021
January 2022
February 2022
April 2022
July 2022
-publishing in 3rd week of month