



# The Global Forest Products Industry 2012: Changing Times

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Gary Bull, UBC, Canada  
October 8<sup>th</sup>, 2009

Forest Owners and Wood Processors 2009 Conference  
Nelson, New Zealand

# Context

“The global forest sector was experiencing some of the most fundamental changes in markets and public policies *since the end of the Colonial Era.*” – even before the financial crisis of 2008.

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Wildly escalating energy costs...

Prospective pricing of carbon...

Fundamental forest tenure reforms in Russia, China, India...

Explosion of the Asian wood deficit...

Revolution in electronic communication...

*Don Roberts, investment banker, CIBC World Markets*



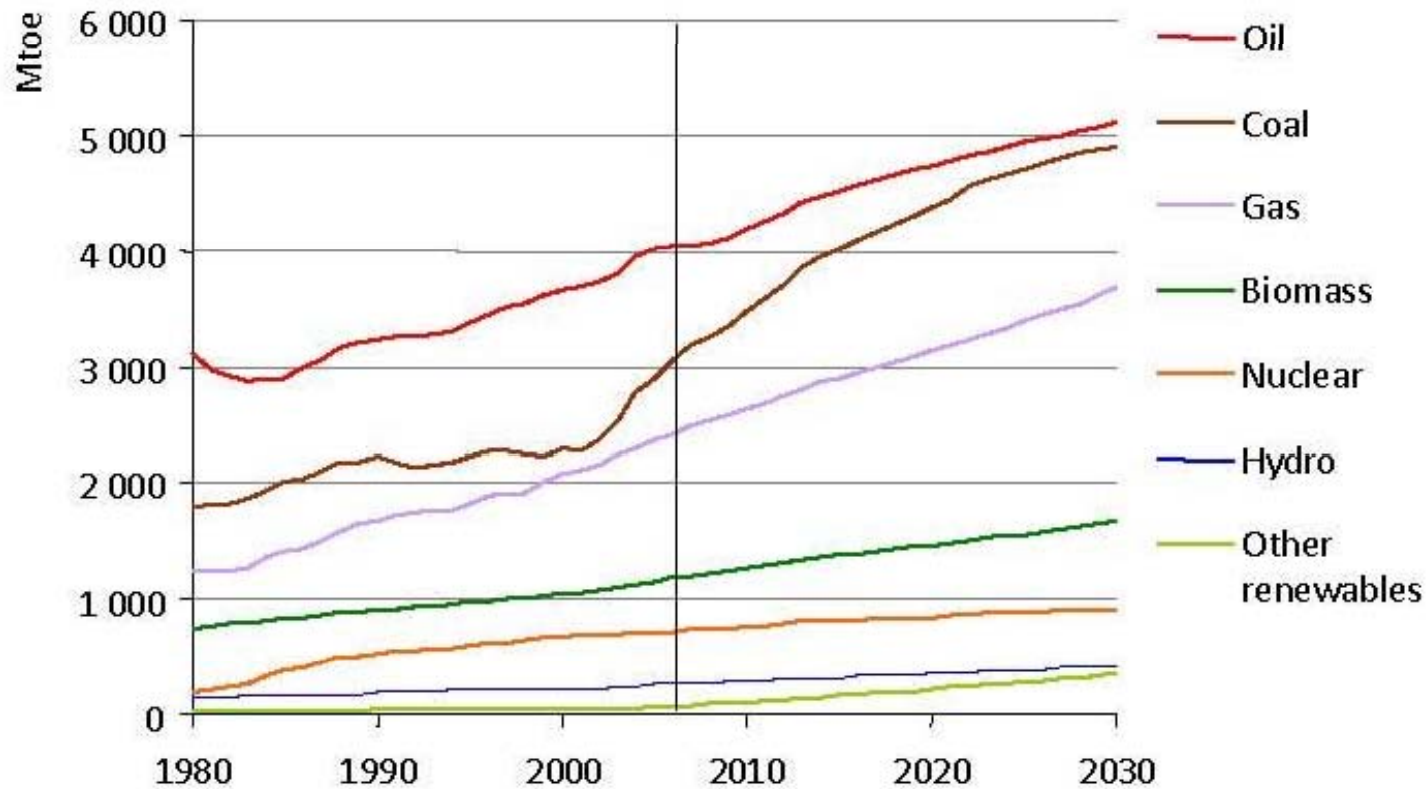
# Context

World Bank forecasts:

- Global GDP to double to \$72 trillion by 2030
- Per capita incomes will triple in the developing world,
- Global population to reach 9 billion by 2050

Growing prosperity leading to increased demand for animal protein-10-15 X more land intensive than traditional diets

# Context - World Energy Demand



Source: OECD/IEA - 2008.



# Outline – Changing Times

- **Markets**

- Land
  - Labour
  - Capital
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- **Policy**

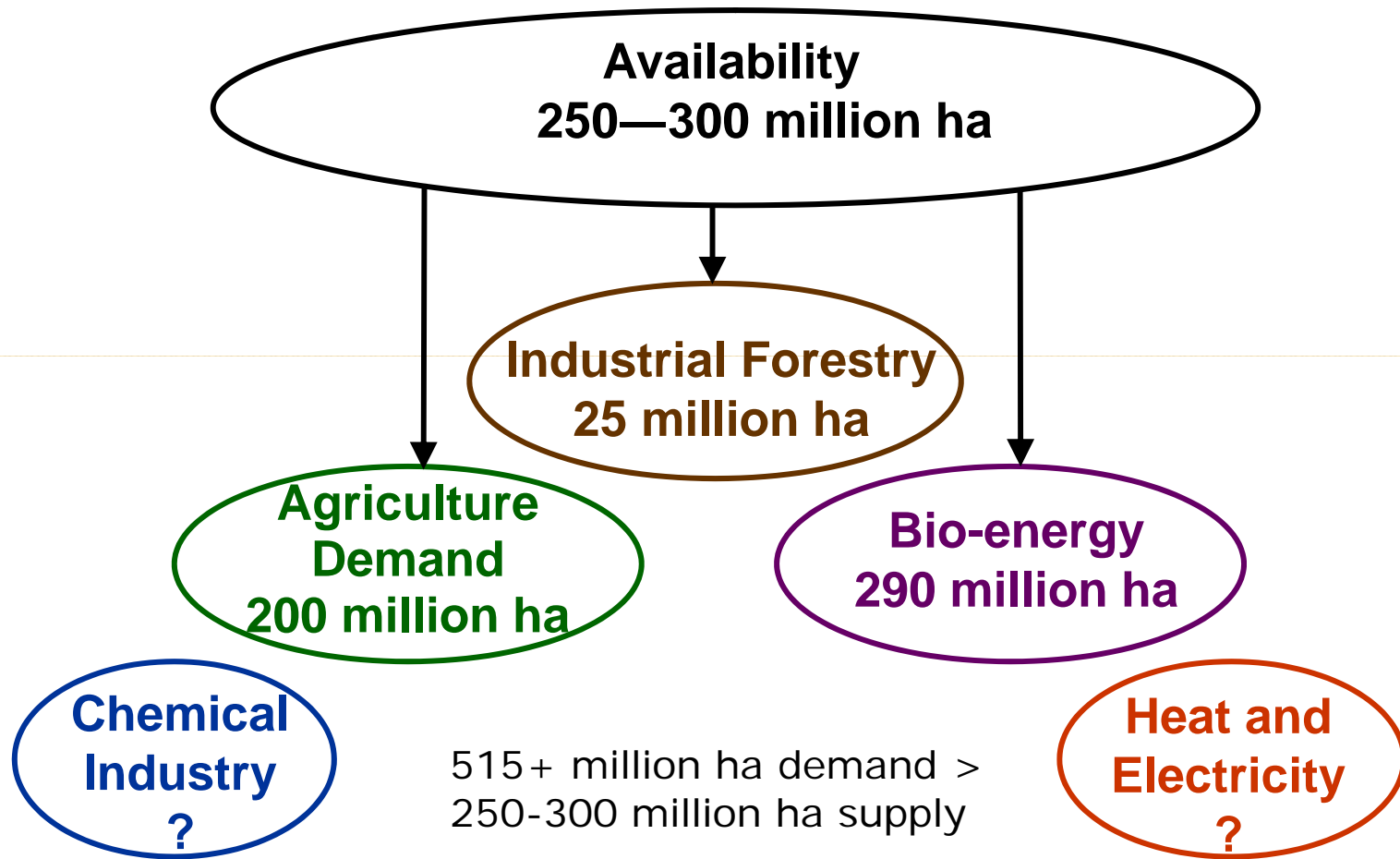
- Climate/Carbon
- Corruption/Illegality
- Pricing – resources and products
- Taxation/Subsidy
- Tenure

# Land -Fuel, Food And Fiber

- Environmental Security: i.e., combat climate change
- Economic Security: i.e., protection against the rising real price of oil
- National Security: i.e., diversification of energy supply
- Food Security: i.e., access to food at reasonable prices
- Political Security: i.e., secure political support at local level by rural development

all related to security (and driven by anxiety)

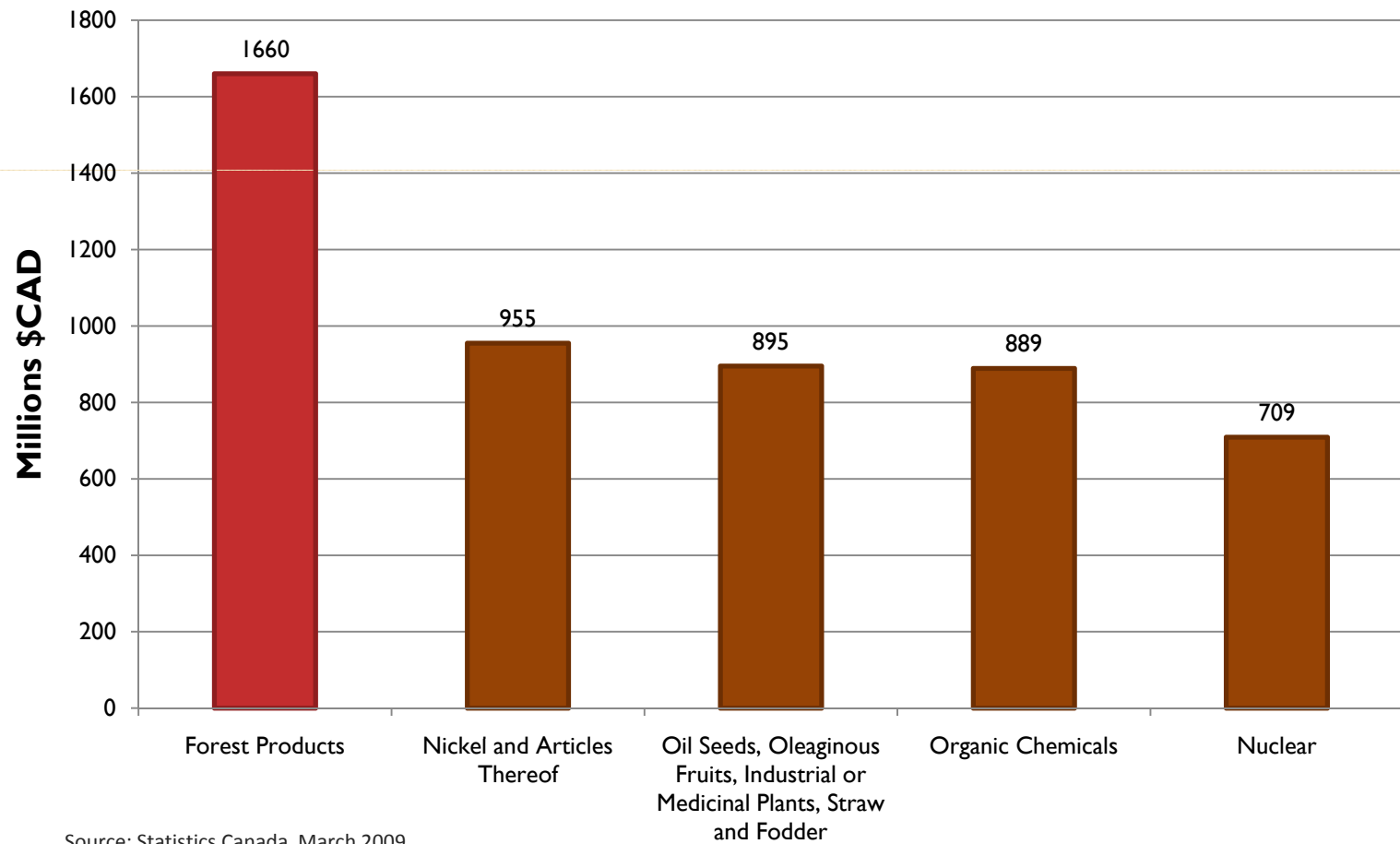
# Where Is The **Land** Coming From ?



Source: S. Nilsson, IIASA.

# Land in China: Canada's response

## Top 5 Canadian Exports to China (2008)



Source: Statistics Canada, March 2009



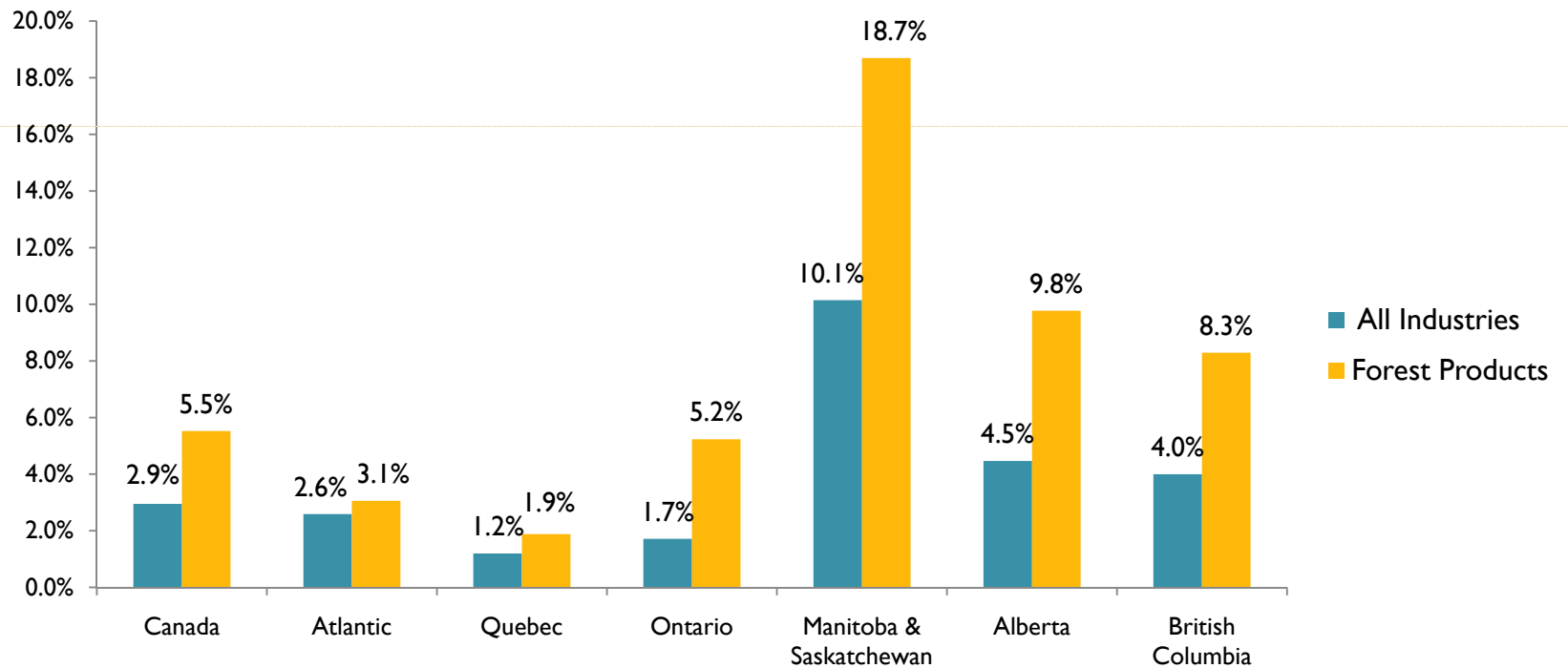


# Labour

- Labour productivity rising?
- Labour costs shifts – downward pressure
- Labour exiting – schools emptying
- Labour profile - changing

# Important Contributor to Aboriginal Employment

## Aboriginal Share of Experienced Labour Force (2006 Census)



Source: Statistics Canada

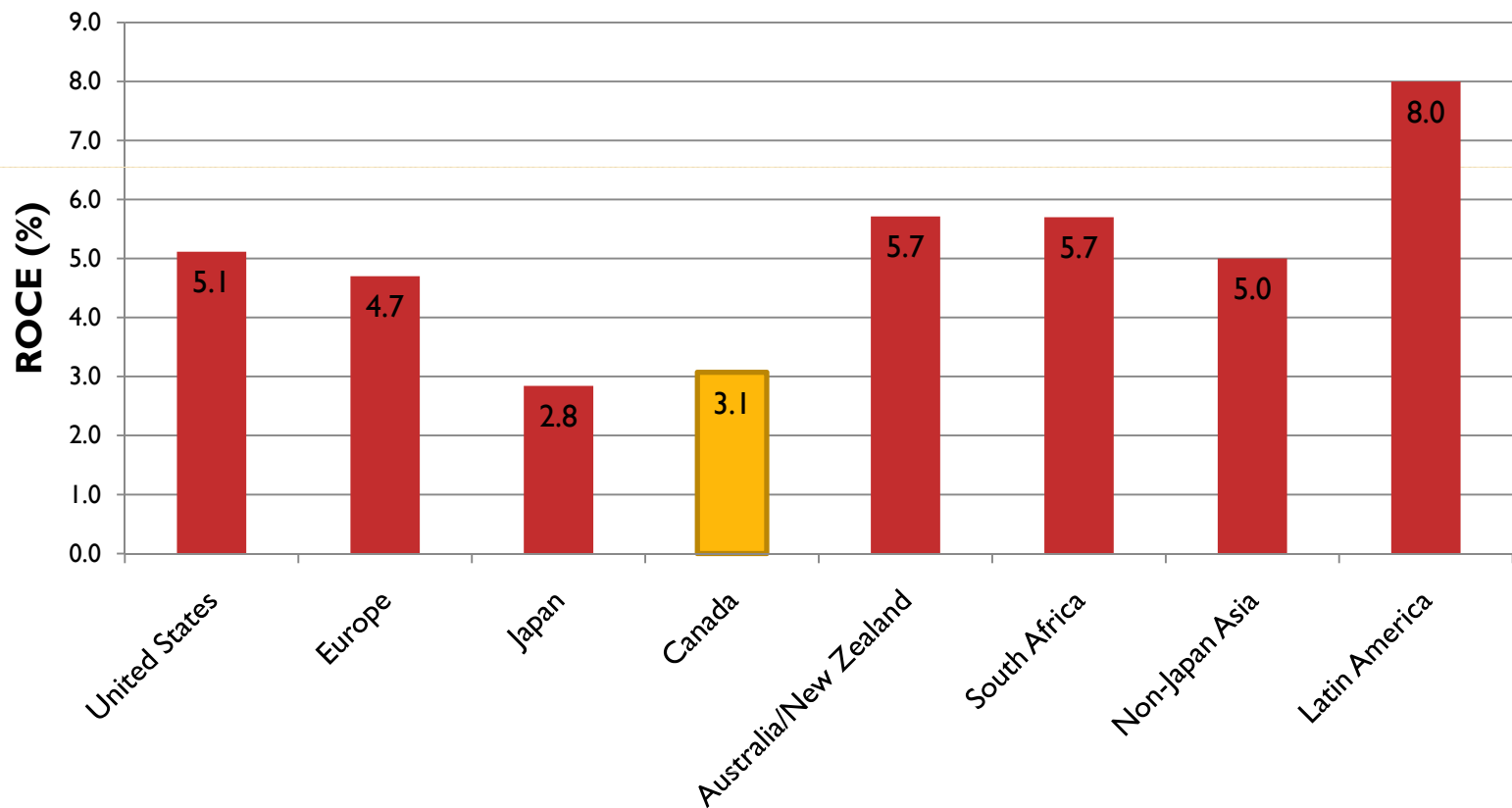


# Capital

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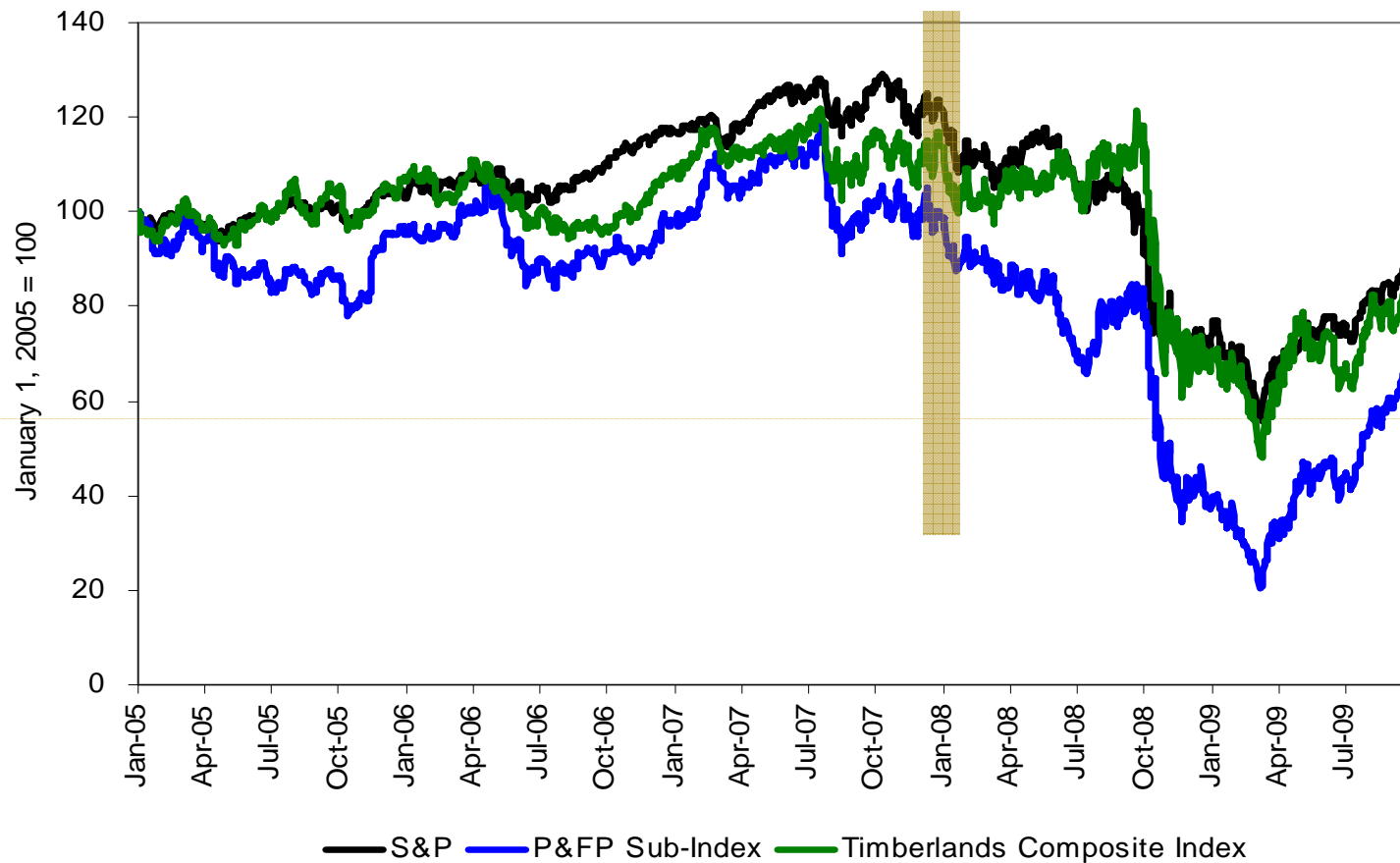
# Return on Capital

Return on Capital Employed, 2001-2007 Average



Source: PwC

# Stock Performance of the Forest Industry

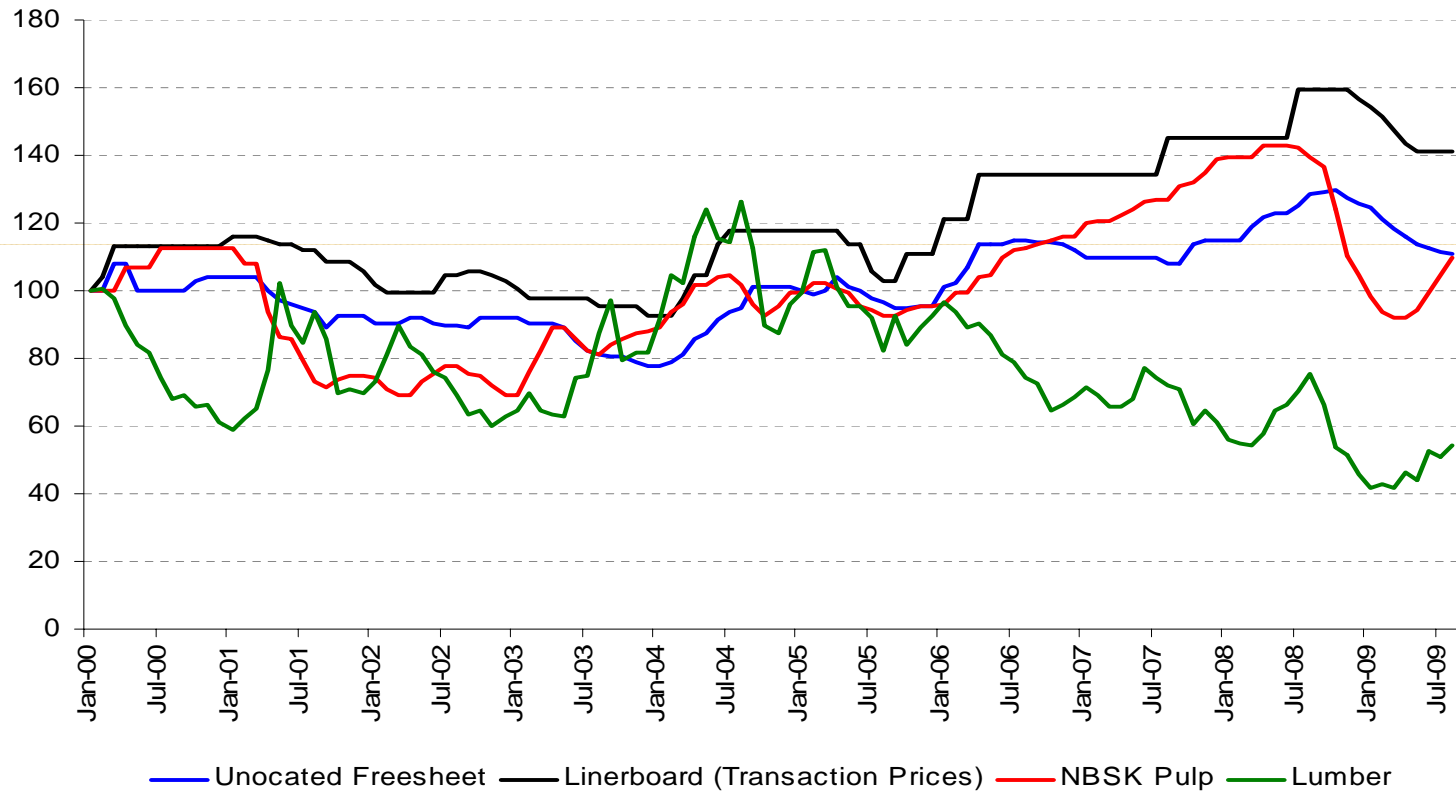


Note: Timberlands Composite Index members: Deltic Timber, Potlatch, Plum Creek Timber, Rayonier, TimberWest and Weyerhaeuser.

Source: Bloomberg and CIBC World Markets Inc.

# Forest Product Commodity Prices

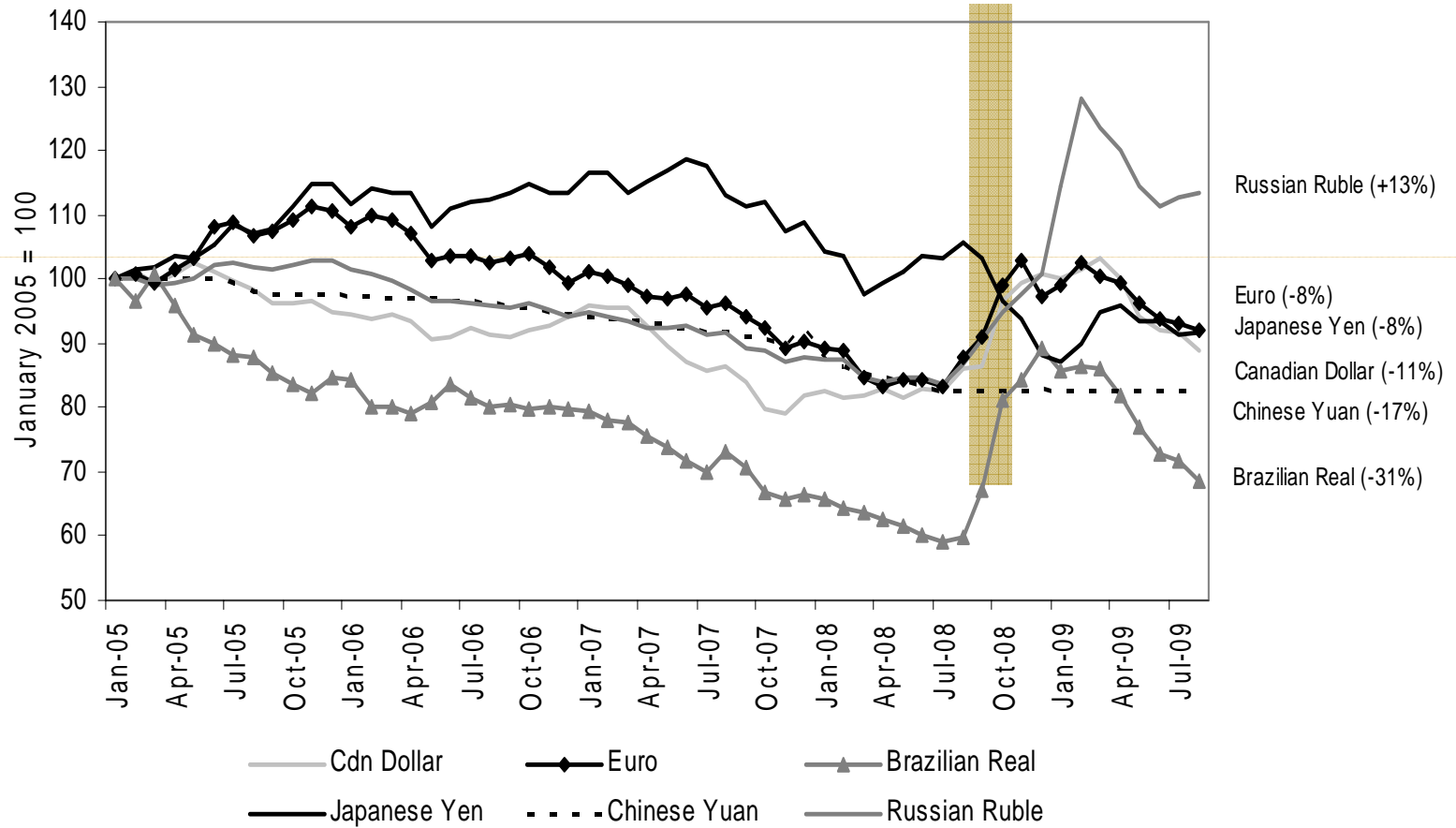
Commodity Prices (January 2000 = 100)



Source: RISI, Random Lengths and CIBC World Markets Inc.

# The Current Chaos

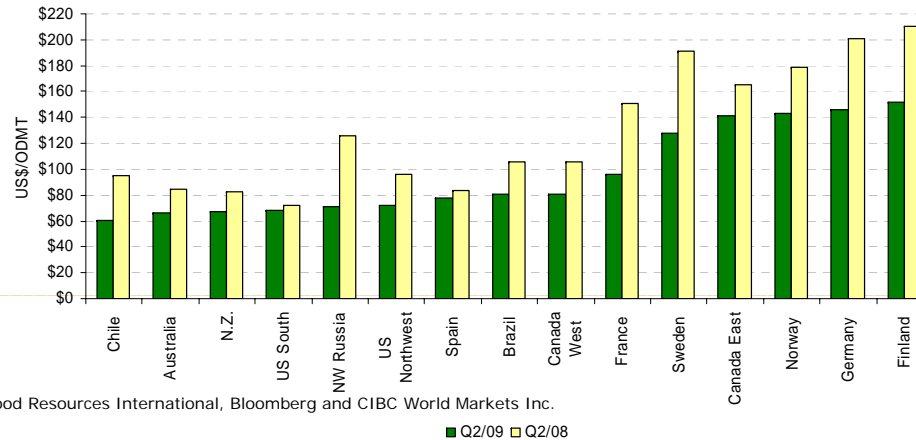
**World Currency Movements (Against the US\$)**  
**January 2005 = 100**



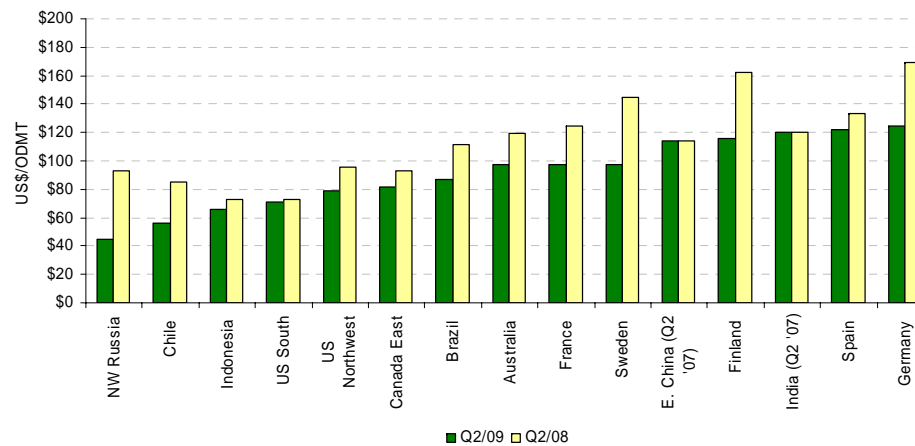
Source: Bloomberg and CIBC World Markets Inc.

# Global Pulp Wood Prices

**Average Delivered Softwood Pulp Log Prices, by Region  
Q2/08 vs Q2/09  
(US\$/ODMT)**



**Average Delivered Hardwood Log Prices, by Region  
Q2/08 vs Q2/09  
(\$US/ODMT)**







# Policy

- Carbon
  - Corruption
  - Pricing
  - Taxation/Subsidy
  - Tenure
-

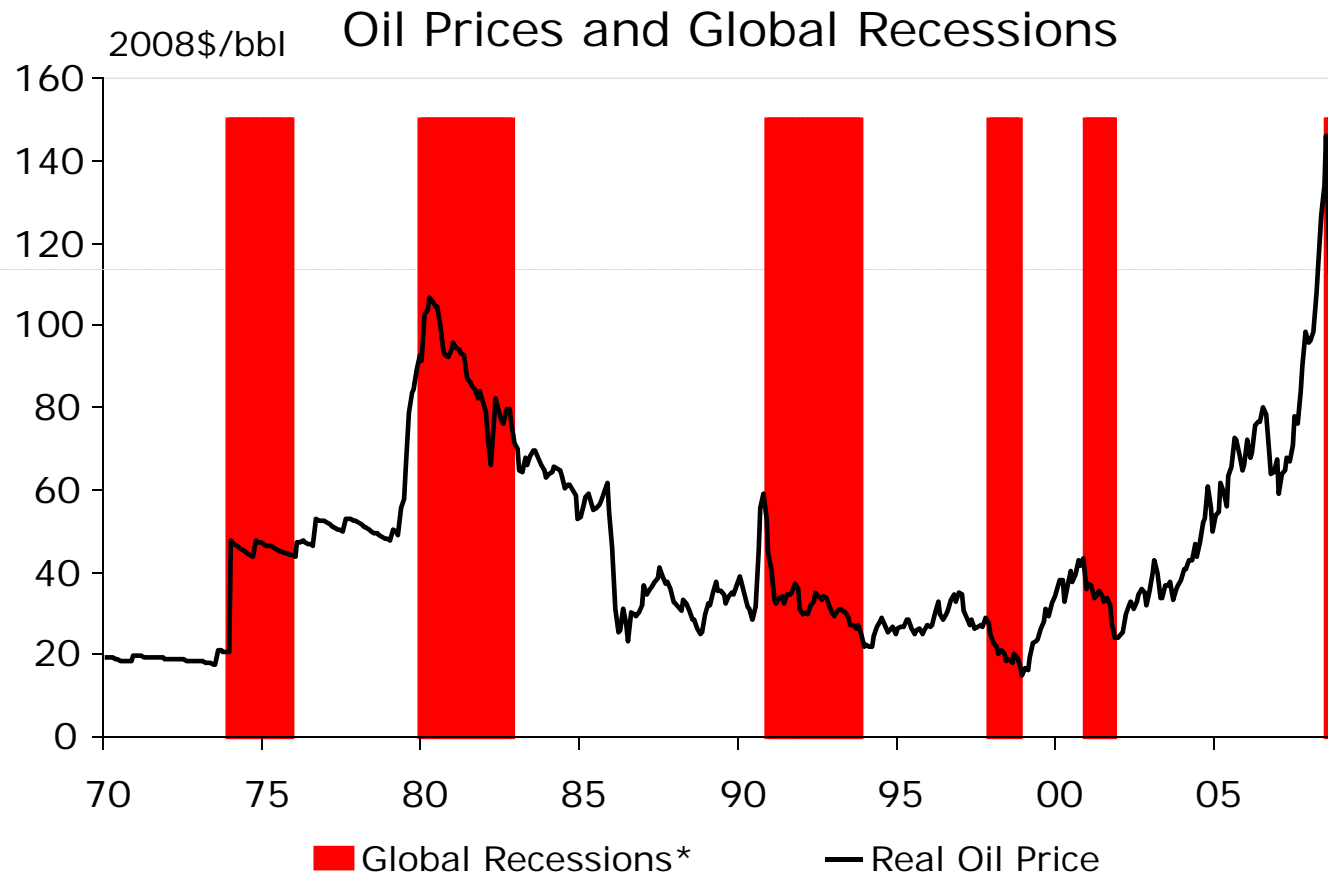


# Carbon

- Carbon debate focussed on standards
  - AFPA/FPAC – ANSI/CSA standard
  - Provincial legislation – BC standard
  - Federal initiatives - IPOG, US
  - NGOs – Tree Canada standard
  - Bioenergy standards
- Bioenergy

# Bioenergy Drivers

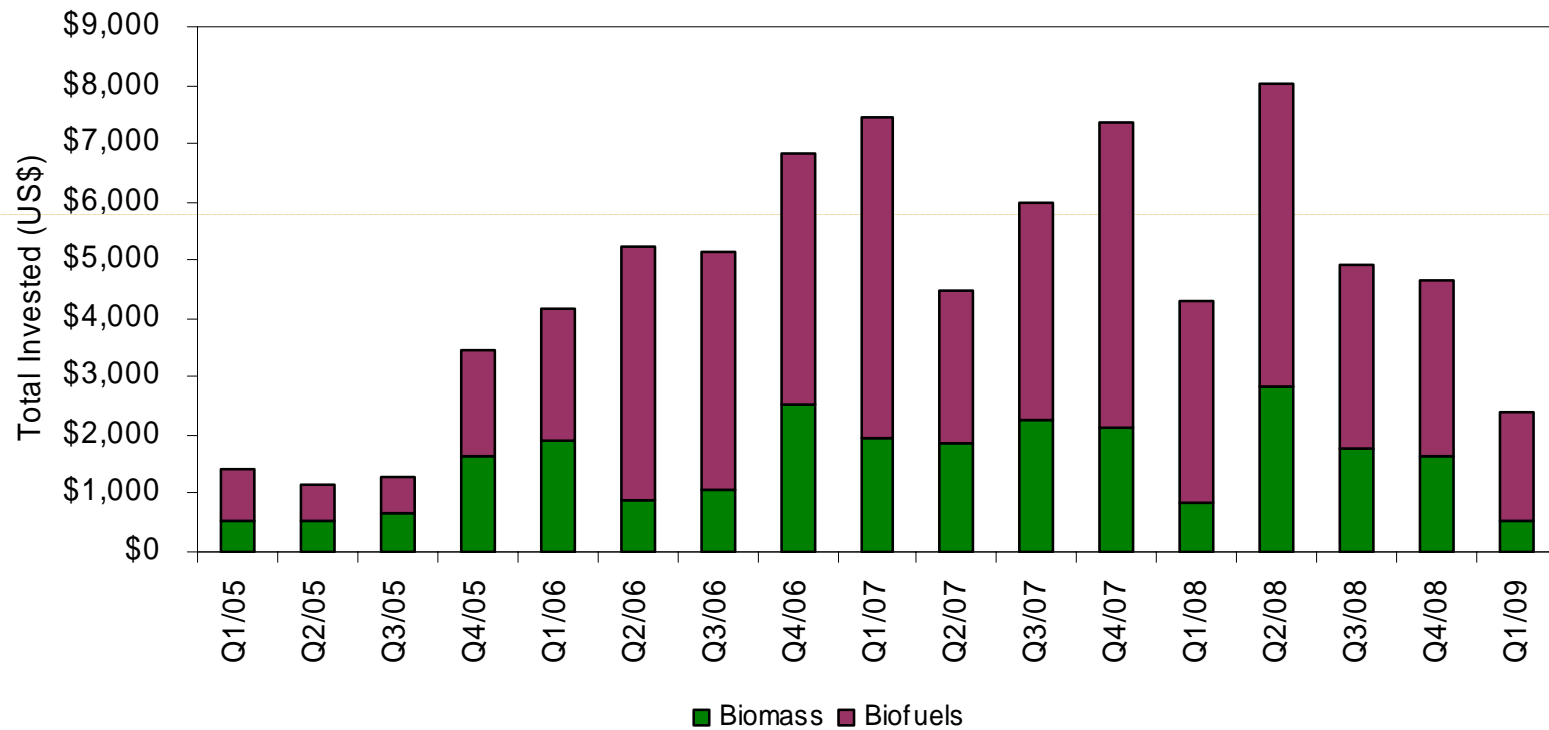
Oil Price Spikes *Preceded* 4 Out of Last 5 Global Recessions.



Source: CIBC World Markets Inc. Economics & Strategy

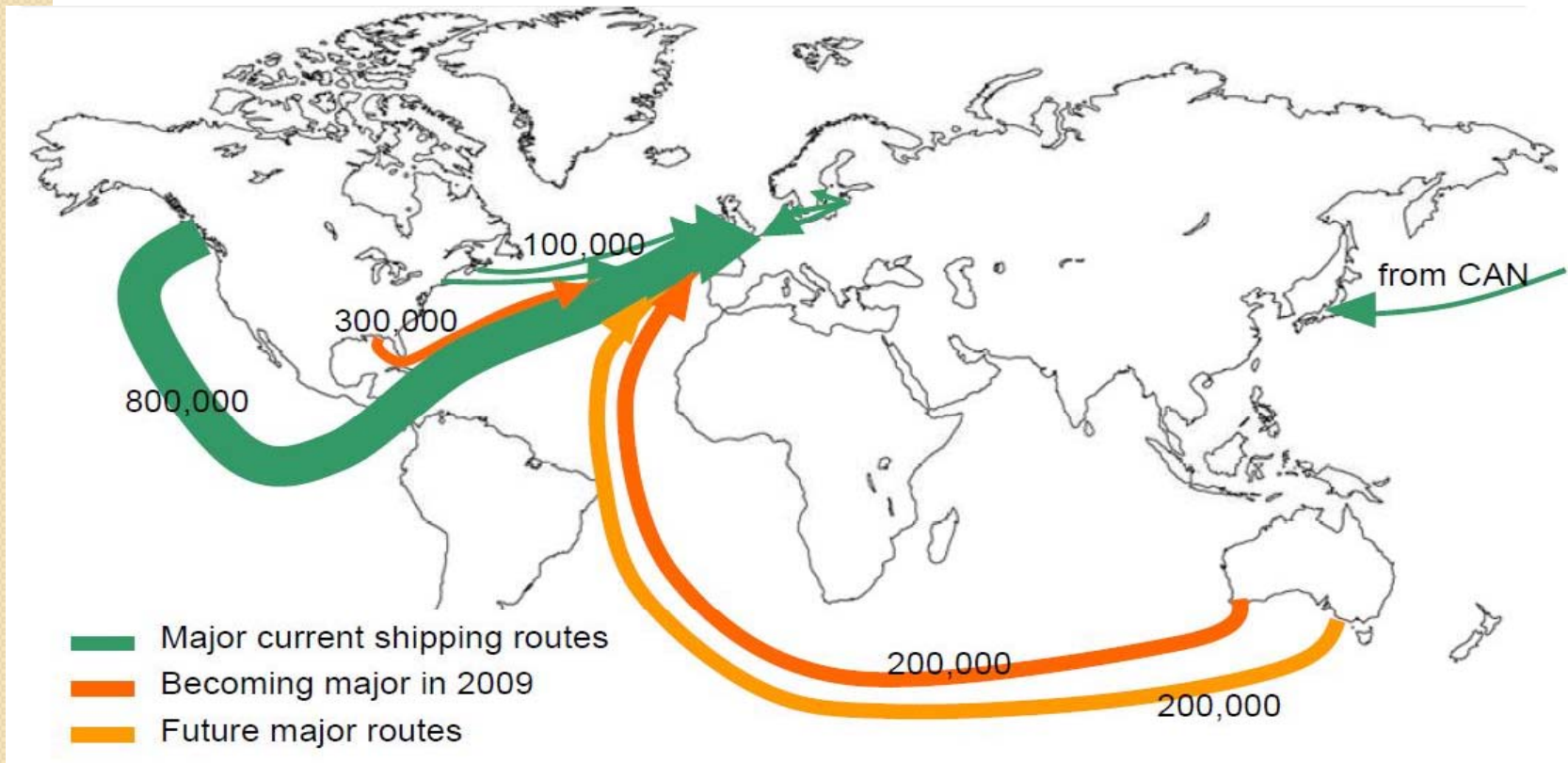
# Global Bio-energy Investment

Global Biomass and Biofuels Financing, By Sector (Q1/05 - Q1/09) (US\$M)



Source: New Energy Finance and CIBC World Markets Inc.

# Global Wood Pellet Trade (Tonnes)



Source: New Energy Finance and CIBC World Markets Inc.



# Corruption/Legality

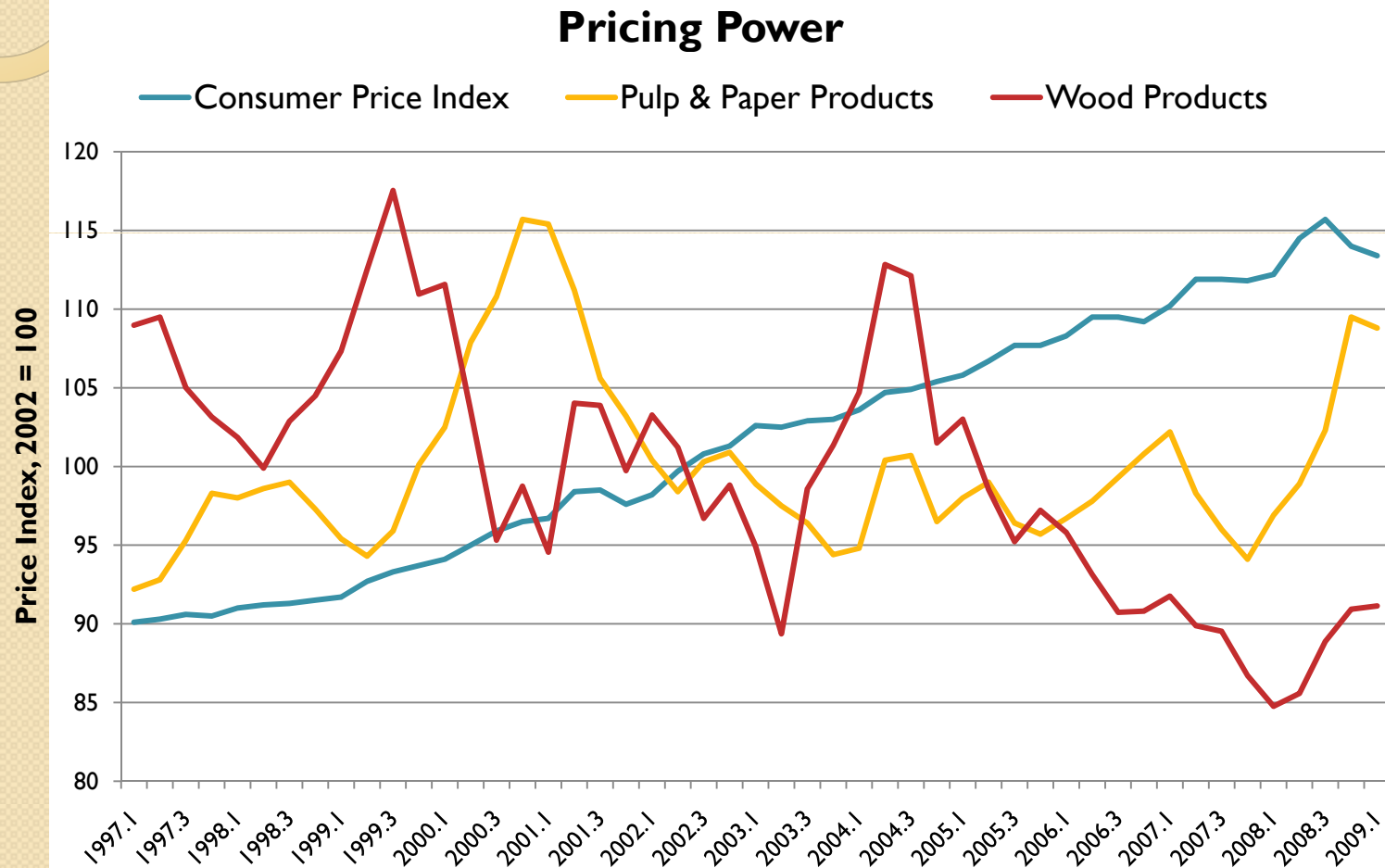
## **Policies**

- Lacey
  - FLEGT
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## **Certification**

- SFI
- FSC

# Forest sector's below-average price appreciation



Source: Conference Board of Canada; Statistics Canada, May 2009

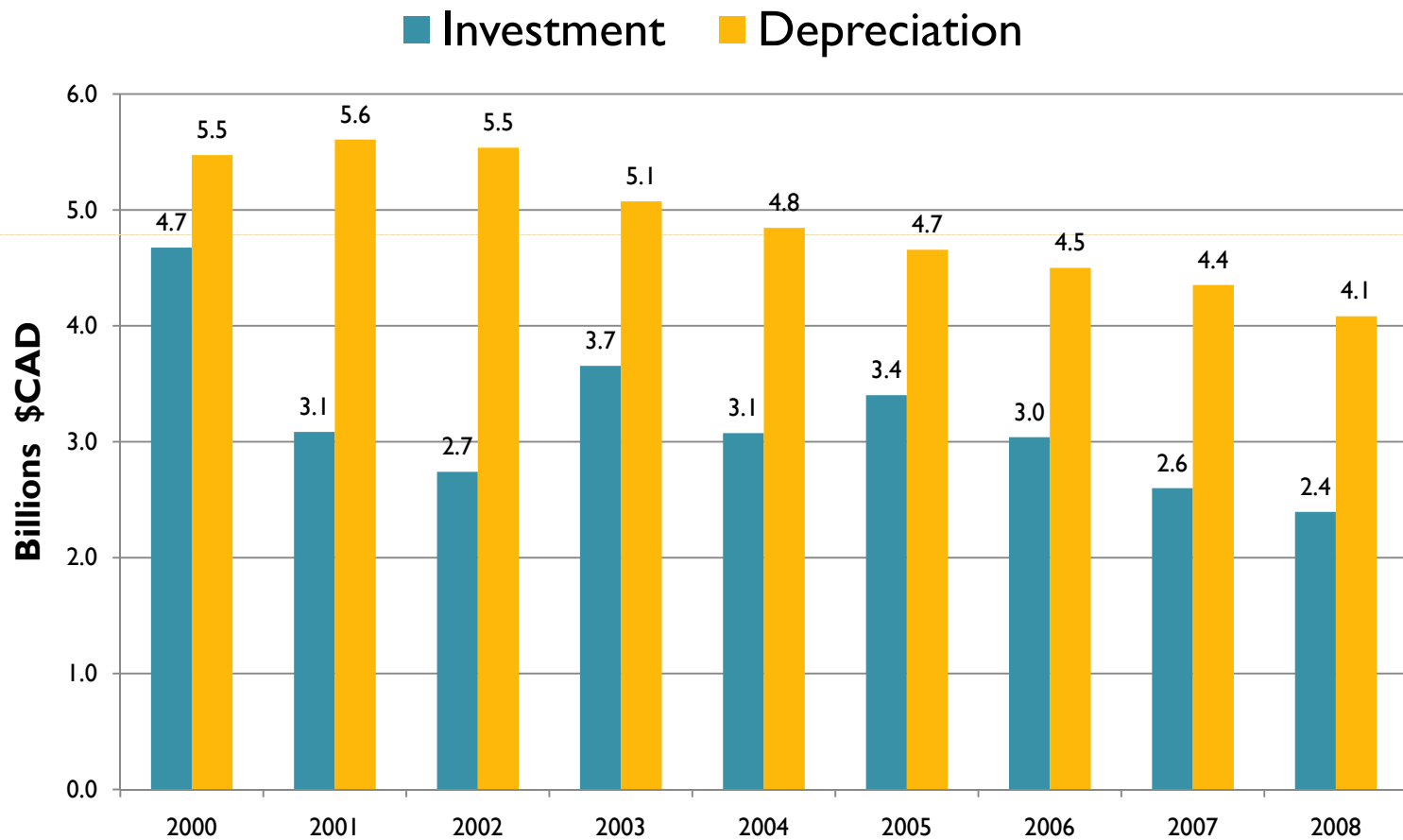


# Taxation

- Industry refuses to pay local gov't
- Export/import tax a painful way to settle trade disputes
- Taxation to encourage investment



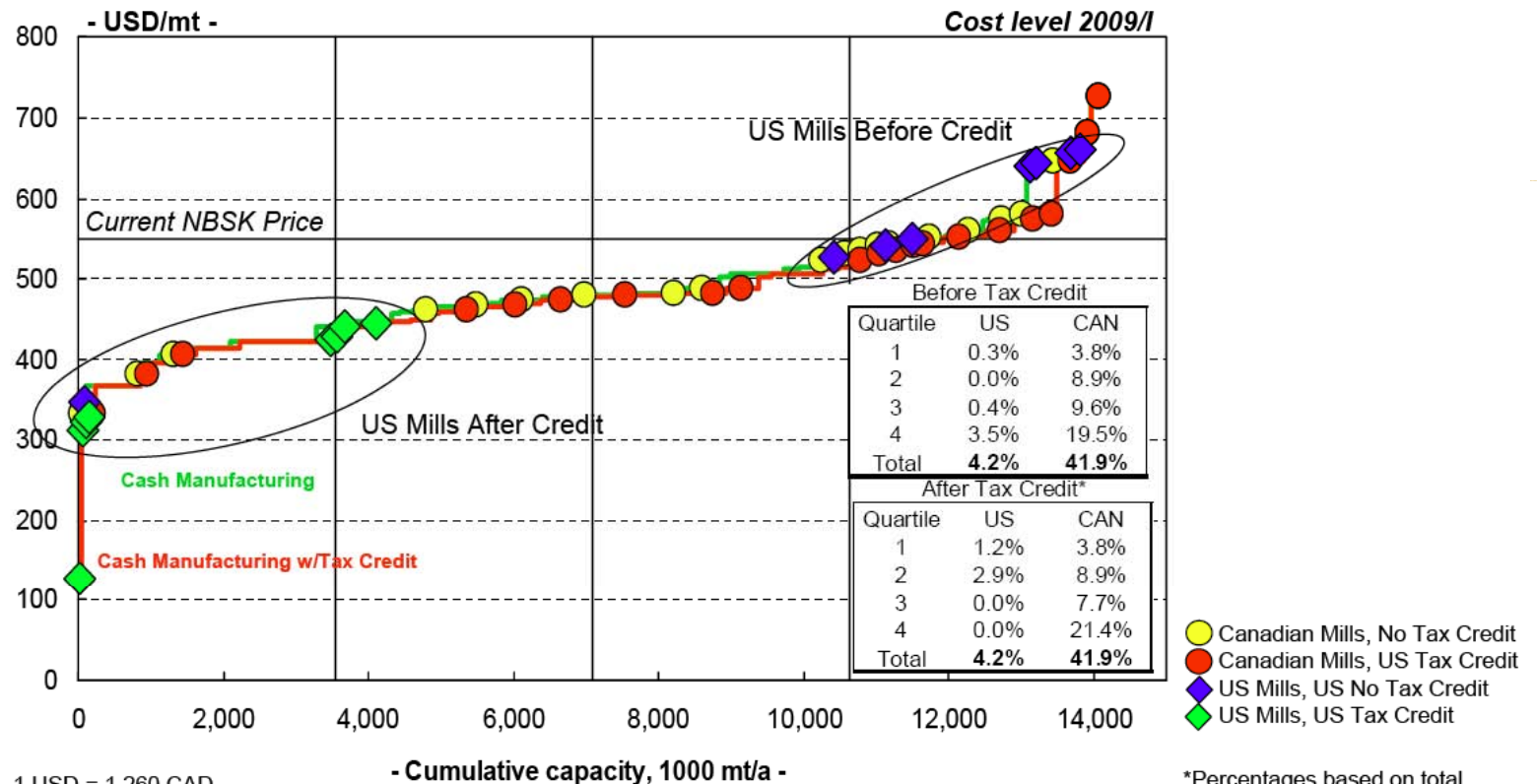
# Depreciation has exceeded new investments in Canada



Source: Statistics Canada, March 2009

# Subsidy - black liquor

Should all US NBSKP mills become eligible for the tax credit, the global positioning of these facilities on a cash cost basis would shift from predominantly fourth quartile to second quartile which moves 5% of Canadian capacity toward the top of the curve.



1 USD = 1.260 CAD  
 1 CAD = 0.794 USD  
 1 USD = 0.766 EUR

Source: Poyry



# Tenure

Major reform underway in China, India,  
Canada

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Stay tuned – meeting, as we speak, of senior  
government administrators from around  
the world's forest countries.



# Conclusion – Industry response

1. Don't invest
  2. Invest? In what?
    - Raw material supply
    - R and D
    - Manufacturing
    - Markets
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# Special thanks

**Don Roberts, CIBC World Markets**

**Avrim Lazar, Forest Products Association  
of Canada**

**Sten Nilsson, International Institute of  
Applied Systems Analysis**