Trump, tariffs and bark beetles

Report on the North Americn softwood market

Skogs Industrierna
SWEDISH FOREST INDUSTRIES FEDERATION

Basics on North American softwood: Big numbers

USA

- Consumption:
  83 mill. m3 (23% of global)
- Cons. per capita:
  0,25 m3 (World: 0,045)
- Production:
  58 mill. m3 (16% of global)
- Forest area:
  310 mill ha (8% of global)

Canada

- Consumption:
  16 mill. m3 (4% of global)
- Cons. per capita:
  0,45 m3 (World: 0,045)
- Production:
  48 mill m3 (13% of global)
- Forest area:
  347 mill. Ha (9% of global)

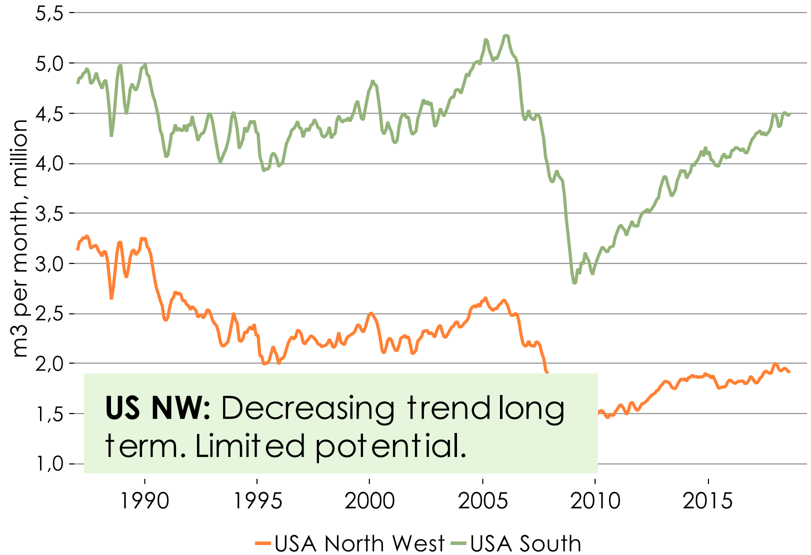
Skogs Industrierna
SWEDISH FOREST INDUSTRIES FEDERATION

North American Supply

Softwood in North America: Four production regions

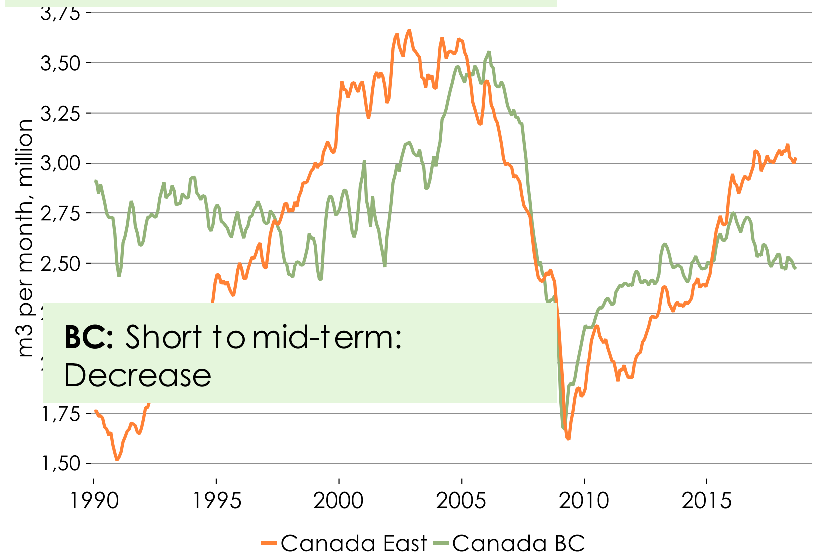
US South: Largest region. Potential to increase. SYP.

US NW: Decreasing trend long term. Limited potential.



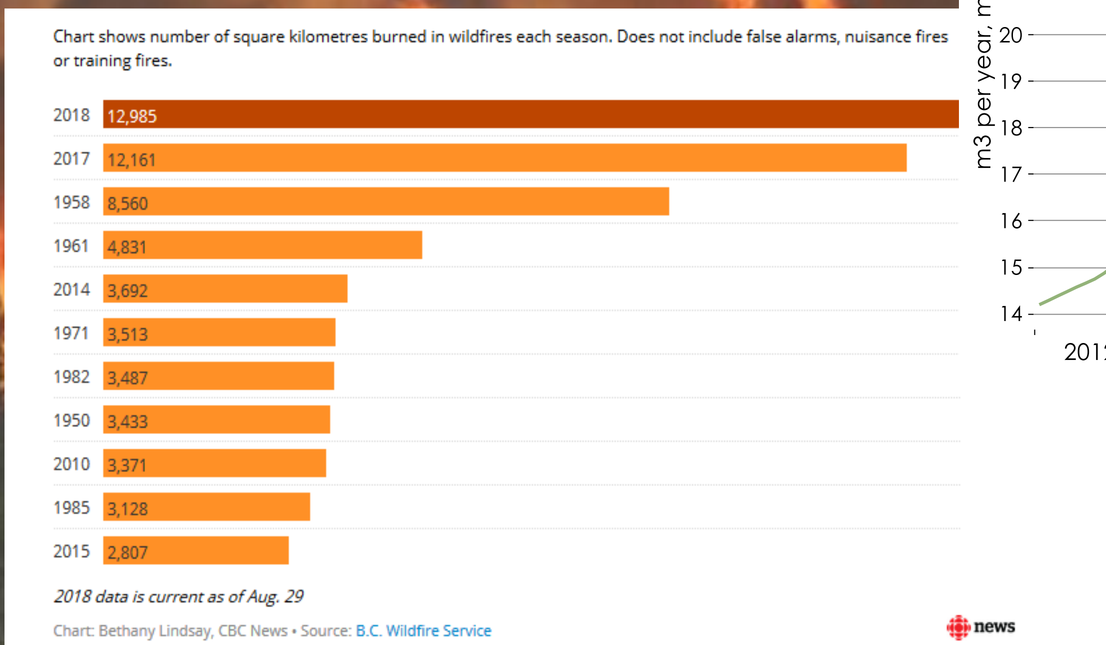
Canada East: Modest to no increase.

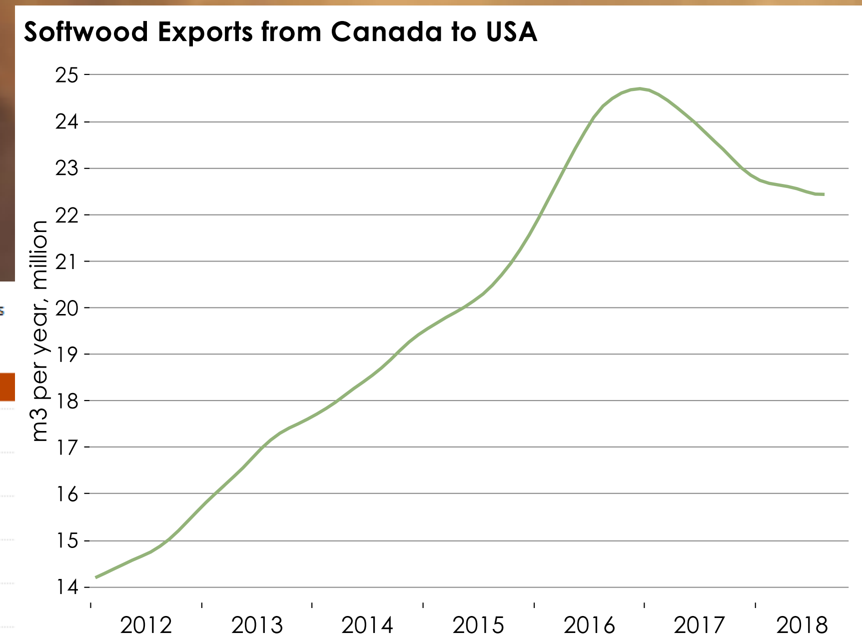
BC: Short to mid-term: Decrease



Canada: Limited wood supply

- Top 10 fire seasons in BC since 1950





INSECT PESTS – MAJOR THREAT TO MIDTERM FIBRE SUPPLY

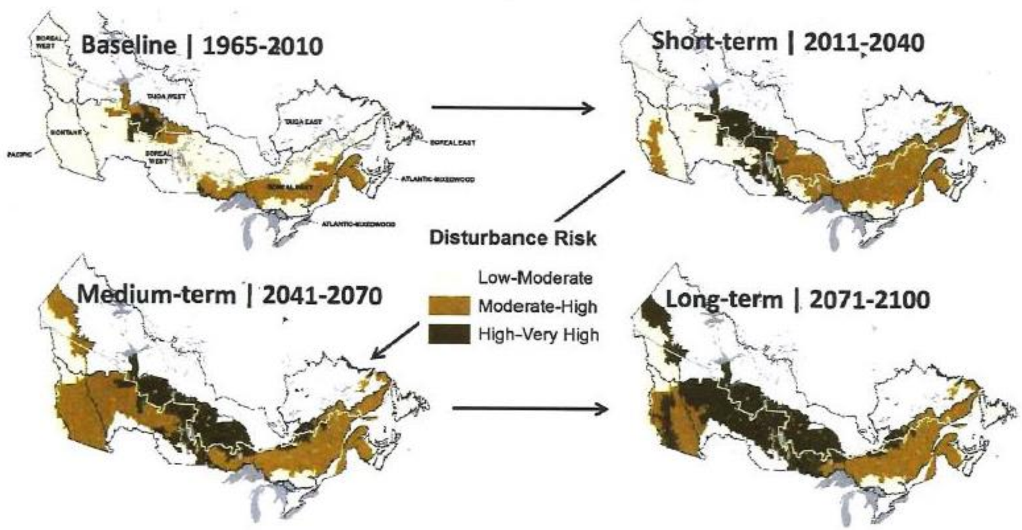
- 18 million ha
- 60% of all mature pine (approx. 800 mill. m3 in BC)
- Unprecedented outbreak 2000-2015
- Now spreading eastwards

Photo credit: Allan Caroll

Skogs Industrierna
SWEDISH FOREST INDUSTRIES FEDERATION

Cumulative Natural Disturbances in Canada

Fire, pests and drought are projected to take place in vast areas of Canada's forests at high to very high risk.



Even when viewed separately, disturbance increases are significant; in combination they overlap and cover nearly all of the managed forests.

Other restrictions to wood supply

Photo: L

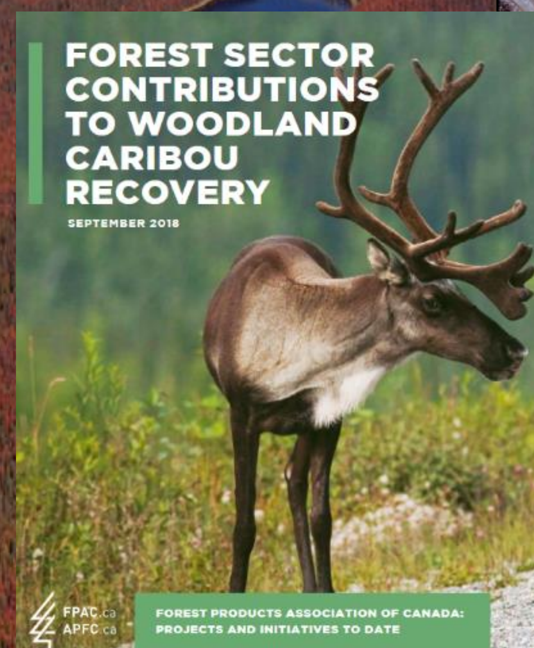
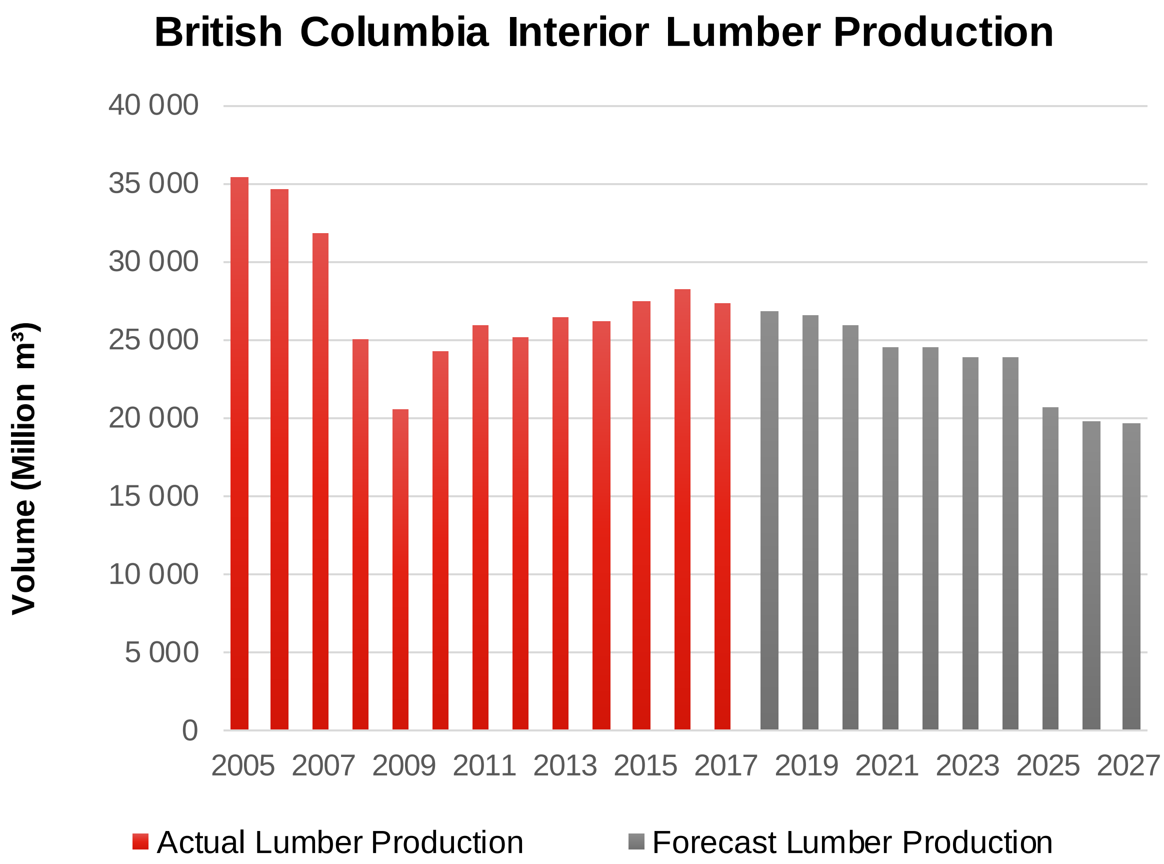


Photo credit: Allan Caroll

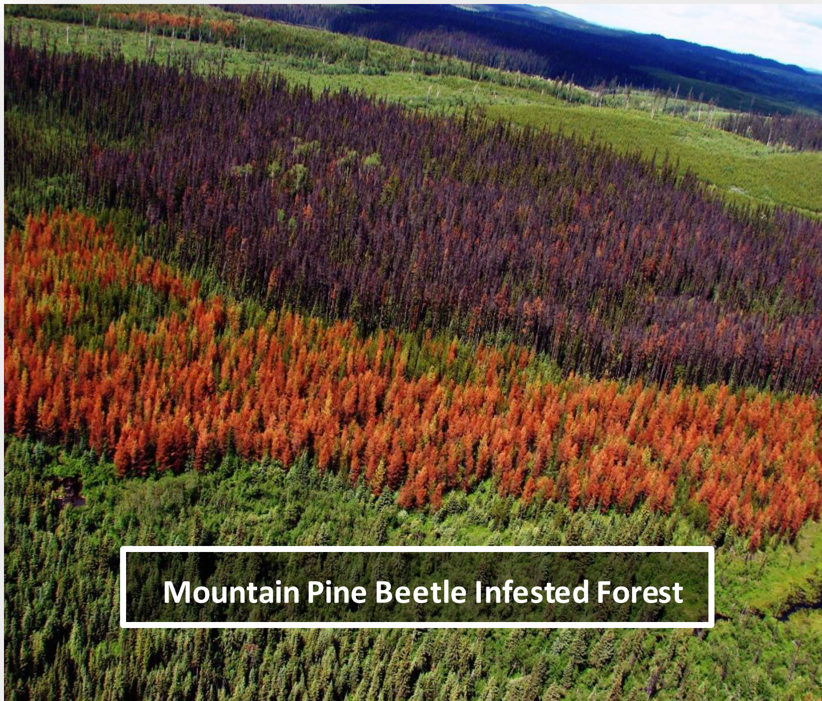
Decreasing timber supply from western Canada



Source: Statistics Canada, Canfor

- **Peak lumber production** in 2006 - 35 million m³
- Coincides with **peak US housings starts** at 2.2 million units
- **Projected provincial timber supply forecast** is expected to **decrease** from 64 million m^3 in 2010 to 40 million m^3 in 2026 for the BC Interior
- BC Interior Lumber production represents **45% of the Canadian production** and 85% of the off shore exports => big impact on global markets

The Past: BC’s Mountain Pine Beetle Timber = Low Grade End Uses

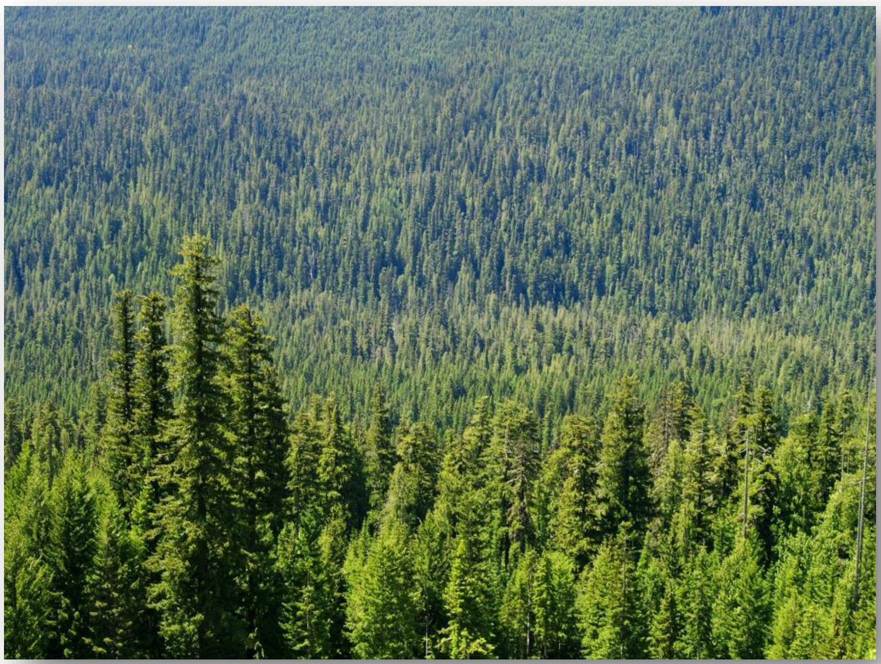


China Market for Low Grade Products

Furring Strips

Concrete Forming

The Future: BC's Remaining Green Timber = Mid & High Grade End Uses



Global Market for High Value Products

Furniture

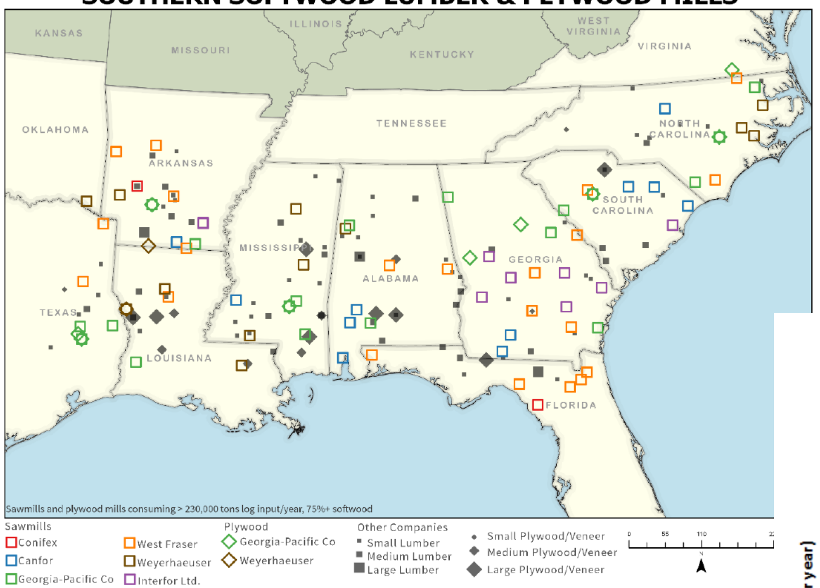
Door Core/ Flooring, etc.

Hybrid Construction

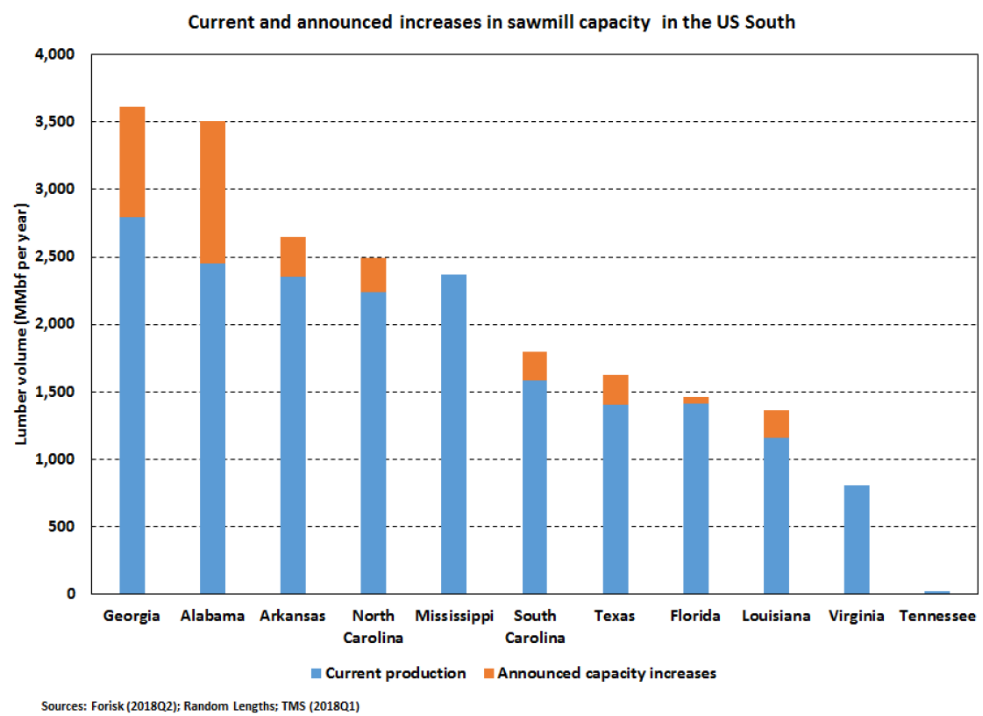
Housing

US South: The new leading forest industry region

SOUTHERN SOFTWOOD LUMBER & PLYWOOD MILLS



- Maturing age classes because of large areas planted during late 80-ies: Creating significant inventory build



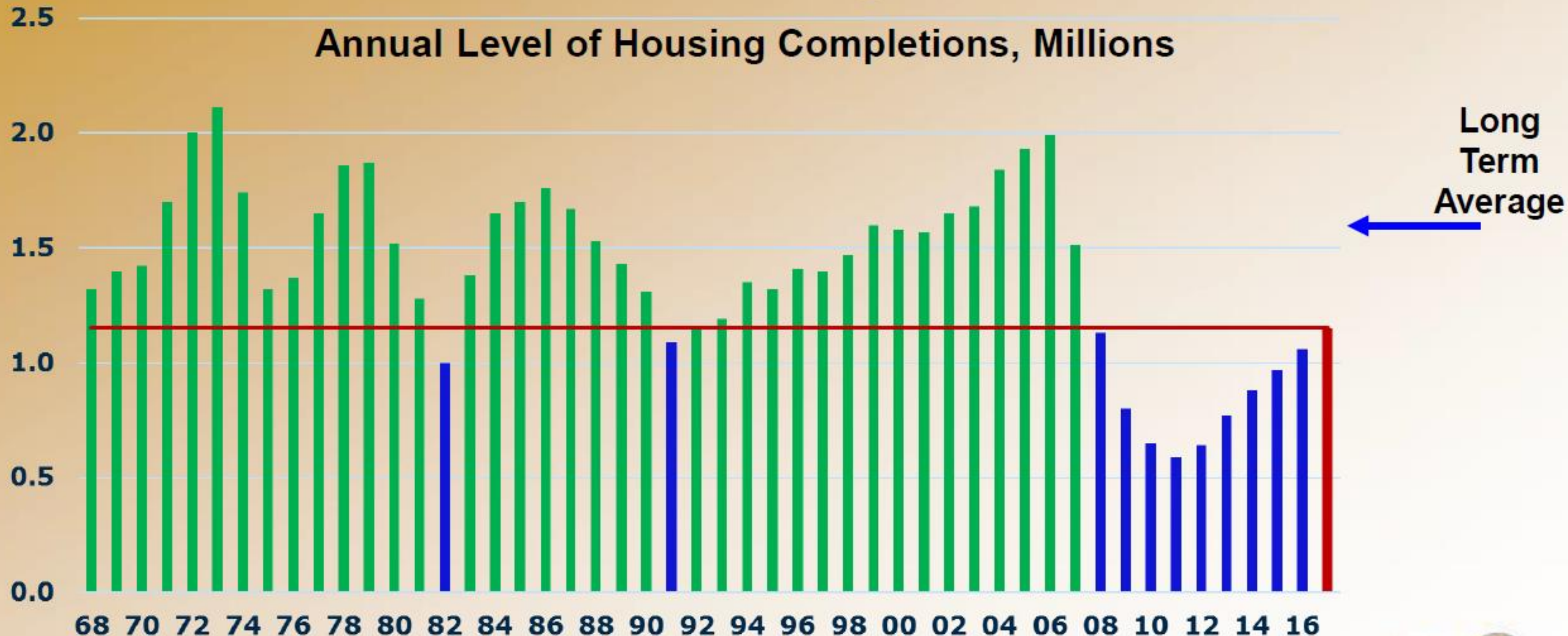
- 1.6 million m3 per yar of lumber production increase are forecast
- Markets for SYP? India?

Skogs Industrierna
SWEDISH FOREST INDUSTRIES FEDERATION

Demand

Skogs Industrierna
SWEDISH FOREST INDUSTRIES FEDERATION

The 2017 Level of Housing Completions Was Typical of a Recessionary Low in Previous Economic Cycles



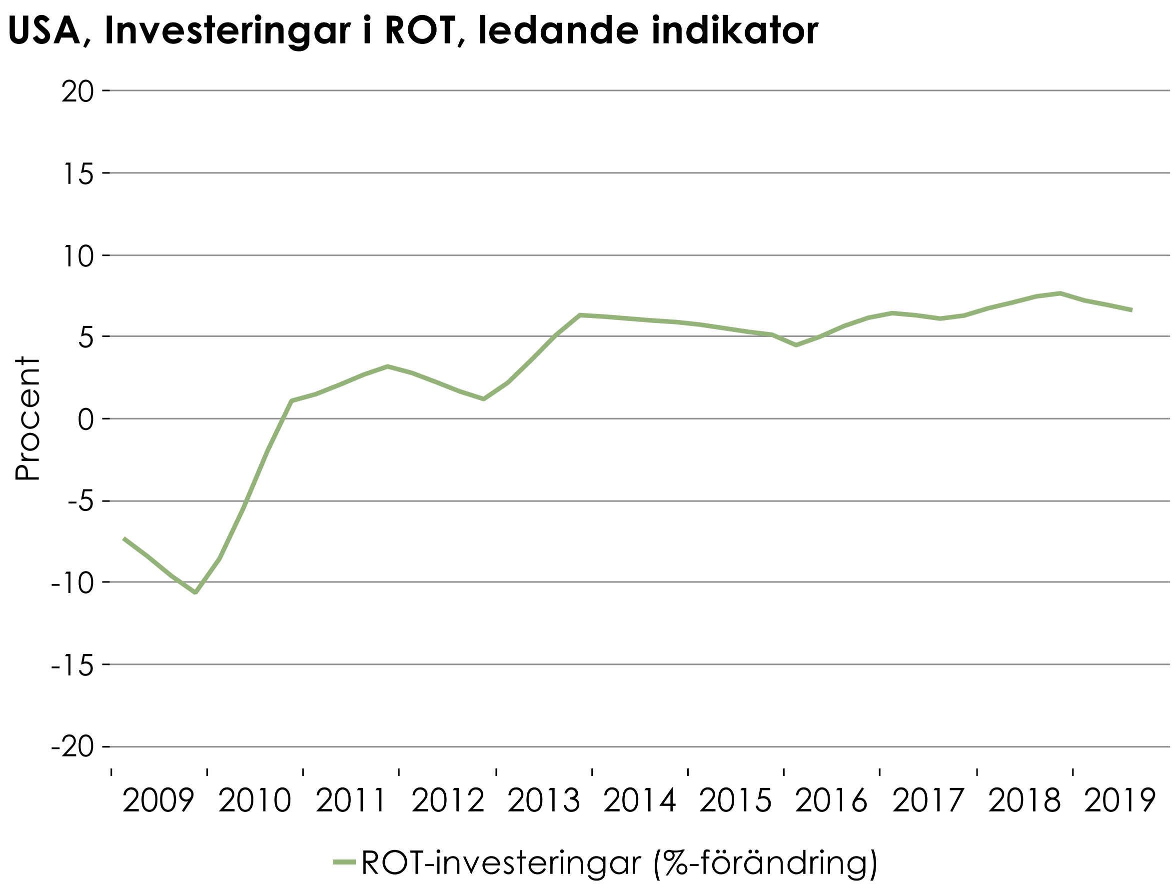
A long way to go before "normal housing" of 1.5-1.6 million

WOOD MARKETS

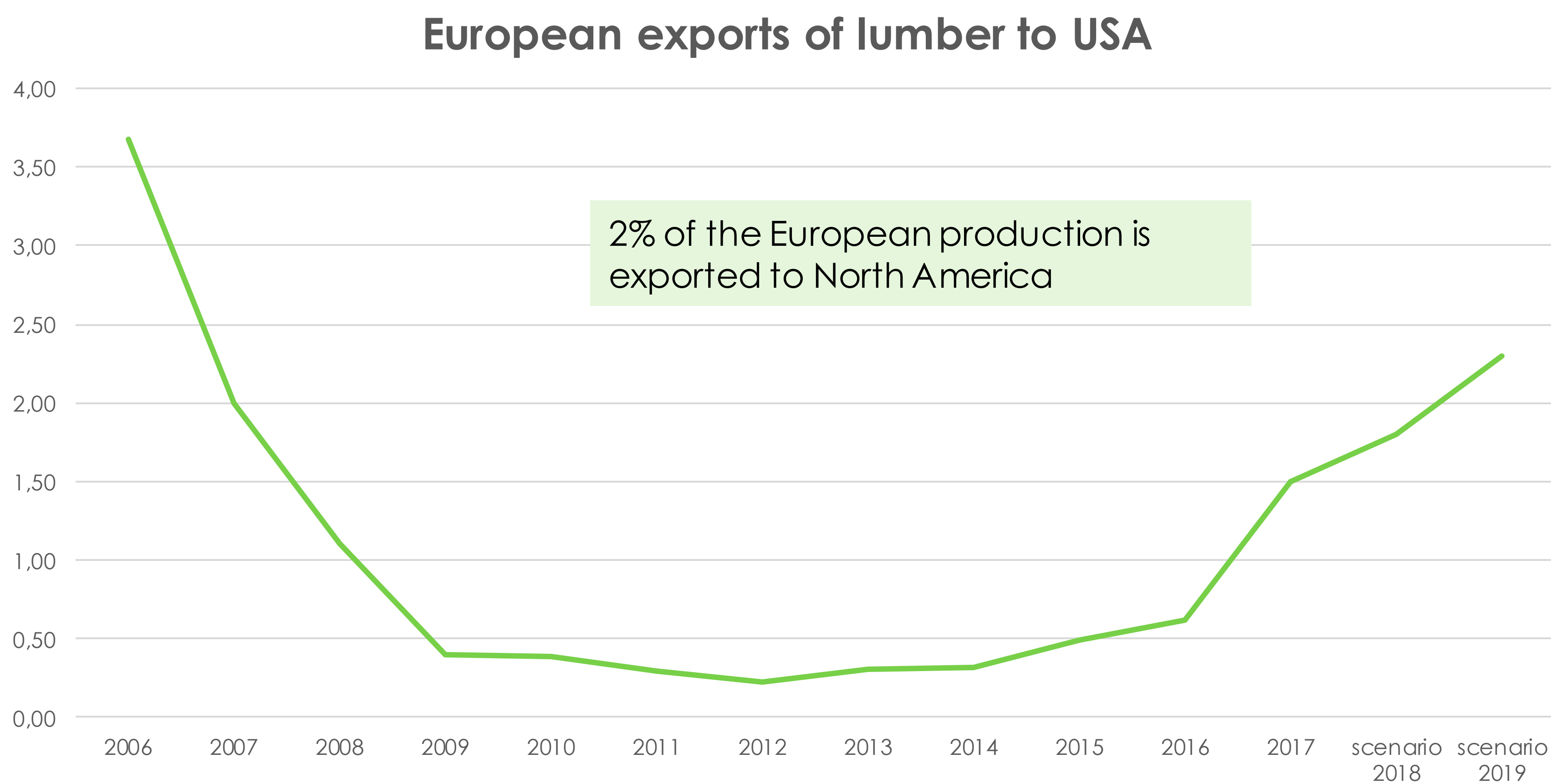
Skogs Industrierna
SWEDISH FOREST INDUSTRIES FEDERATION

USA: Good activity in US renovation and remodelling

R&M stands for about 35% of the US wood consumption



Scenario USA: USA will need European wood, but not as much as in 2006



*13 countries

Skogs Industrierna
SWEDISH FOREST INDUSTRIES FEDERATION

"Perfect fit" for central European "low quality" softwood from storm-felled and bark beetle infested logs (about 100 mill. m3 2017-2018!).

The tariffs

Skogs Industrierna
SWEDISH FOREST INDUSTRIES FEDERATION

The USA-Canada lumber dispute

"Lumber V": Since 2017 "Countervailing- and anti dumping duties" on at average 20,8% on Canadian lumber exports to the USA.

Litigation	Year	Decision	Outcome	Trade restriction
Lumber I	1981	Victory of Canada	Free Trade	None
Lumber II	1988	Victory of Canada	MOU	Weak
Lumber III	1993-96	Victory of Canada	SLA	Moderate
Lumber IV	2001-06	Victory of Canada	SLA-2006	Strong
Lumber V	2017-			

Outcome uncertain, but Canada has won in the end all times before.

Skogs Industrierna
SWEDISH FOREST INDUSTRIES FEDERATION

The USA-China "trade war"

Direct implications this far:

1. **USA imposed import tariffs on 10 – 25% on many wood products**
2. **China answered with tariffs, see table.**

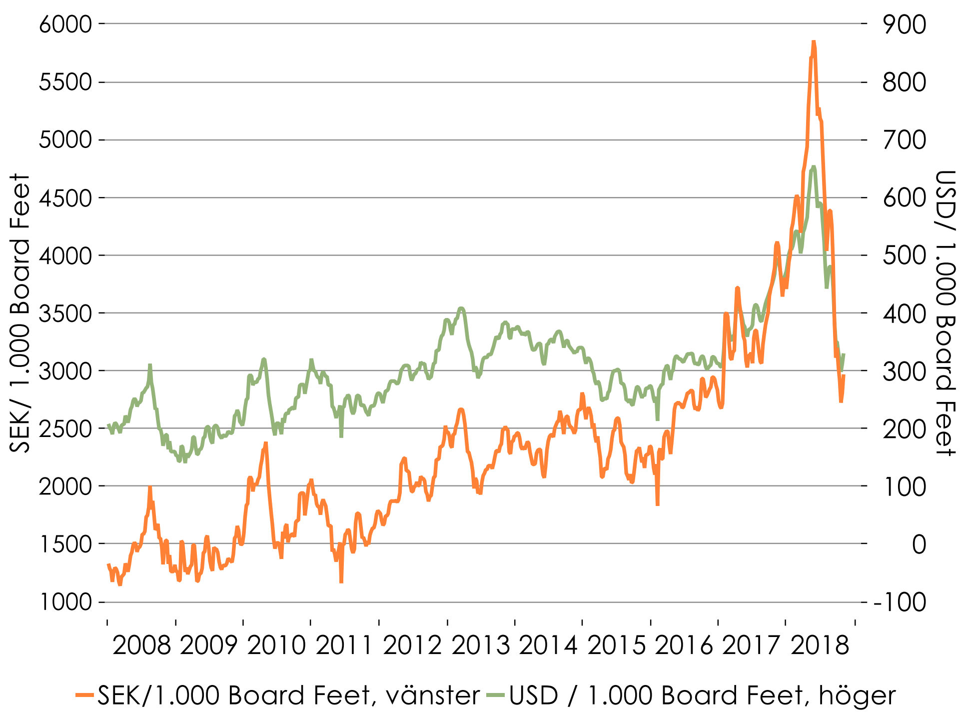
USA threatening to increase tariffs on January 1st 2019, creating uncertainty…

…leading to (even) lower U.S. exports to China.

Product	Tariff	Volume 2017
SYP logs	25% tariff	About 1 mill. m3 from US South
Other logs	5-10% tariff	Almost 4 mill. m3 from US NW
Lumber (Doug fir, SYP, Hemlock)	10% tariff	About 500.000 m3 mainly from US South

Skogs Industrierna
SWEDISH FOREST INDUSTRIES FEDERATION

Softwood prices in chaos!



- **All time high in June 2018. 33% higher than in1993.**
- **Duties on 20.2% and much more absorbed by U.S. consumers.**
- **Despite price slump, field inventories low**
- **Current low prices causing mill curtailments**
- **God chance for price rebound in 2-3 months (but not to record levels)**

Skogs Industrierna
SWEDISH FOREST INDUSTRIES FEDERATION

Summary and conclusions

- Limited supply from Canada for different reasons
- Decreasing production in BC
- US South: Increasing supply of SYP.
- U.S demand fundamentals are sound
- U.S. needs and will need European wood
- Short term “perfect fit” for German storm felled and beetle infested wood given that the US market recovers reasonably well
- Continued price volatility ahead!

Thank you!

magnus.niklasson@skogsindustrierna.se