

Coastal Forest Sector and Government Response

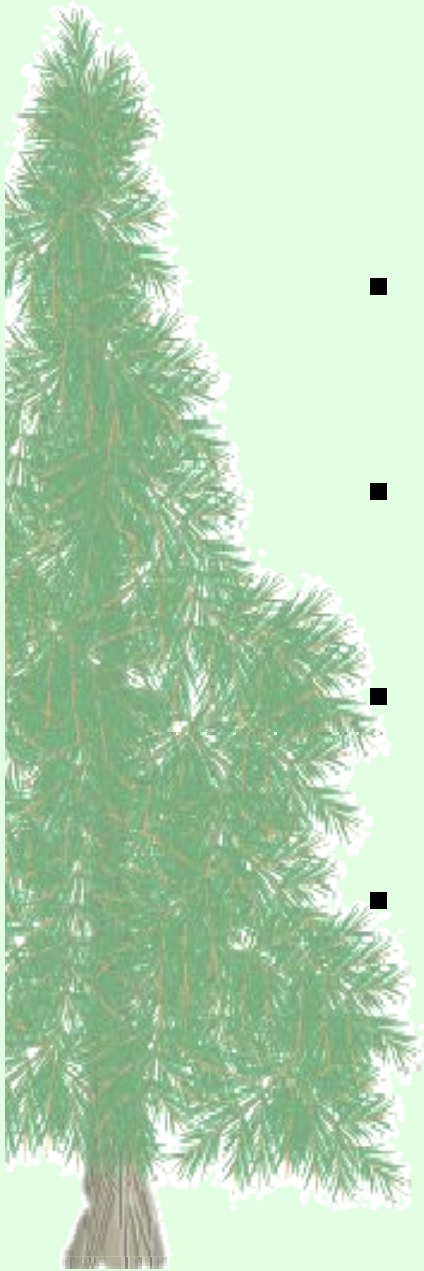
Presentation to Western Forest Economists
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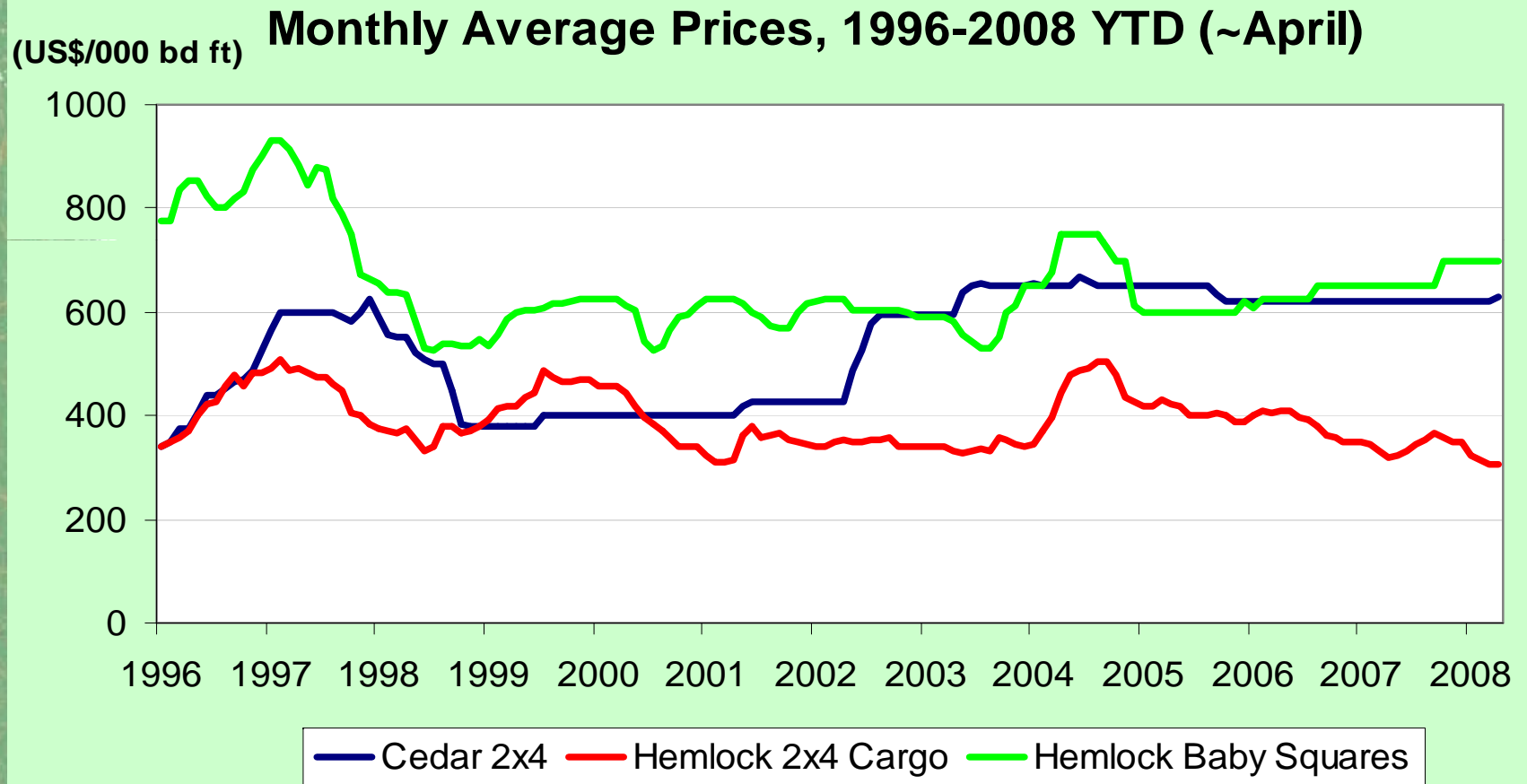


Challenges

- Cost Structure
 - old plant and equipment
 - high harvesting and labor costs
- Markets
 - historical markets under pressure
 - need to expand markets
- Products
 - green product mix
 - focus on dimension/solid lumber production
- Investment
 - Low return to capital – negative impact on investment



Coastal Product Prices



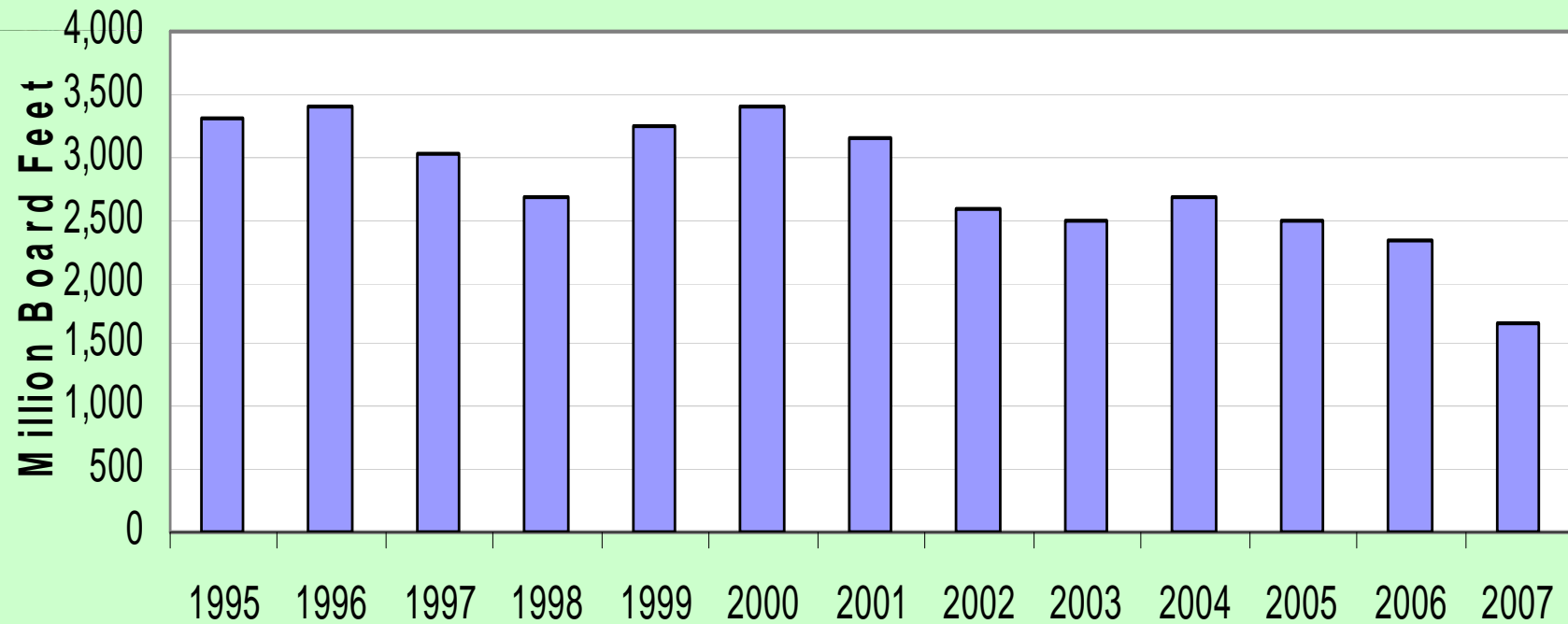
Japanese Wood Product Market

- Huge changes in softwood lumber market share between 1999 and 2007:
 - Canada -30%
 - US -60%
 - New Zealand -21%
 - Europe +80% and Russia +183%
- Decreasing consumer preference for coastal BC wood products
- High-quality competitively-priced Russian logs and low Chinese production costs



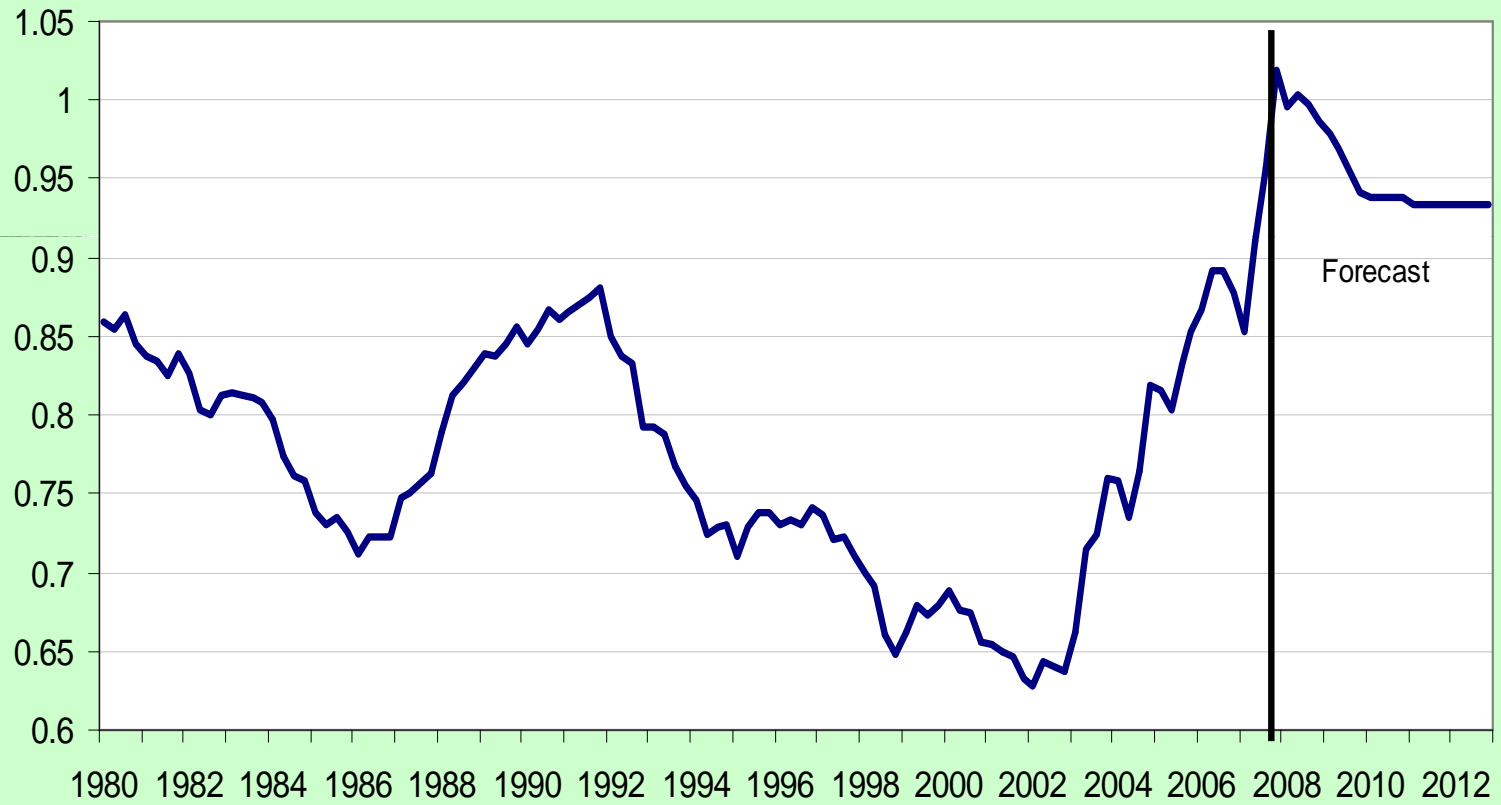
Coastal Lumber Production

BC Coast Lumber Production, 1995-2007



Exchange Rates

US\$/CDN\$



Revitalization

Comprehensive plan to:

- Ensure functioning market for public timber and create market pricing system.
- Allow for efficiencies in operation.
- Reallocation of timber to First Nations and communities.



Revitalization

Community Forests

- 65 existing or application in progress.

First Nations

- Forestry agreement in place 120 First Nations 60 on the coast.



Timber Auction Based Pricing

1 Standing Timber



Timber representative of the overall provincial harvest is developed for sale

Auctioned licences are called Timber Sale Licences. For these licences, auction prices, (auction reserve price plus the competitive bid) can be used directly as the stumpage rate.

Auction

2 Volume is competitively auctioned

Auction Prices

3 Auction prices are used to set stumpage (what government is paid for Crown trees)

Stumpage

4 Statistical techniques and timber characteristics are used to translate auction prices into stumpage rates for the remaining harvest.

Auctioned Volume

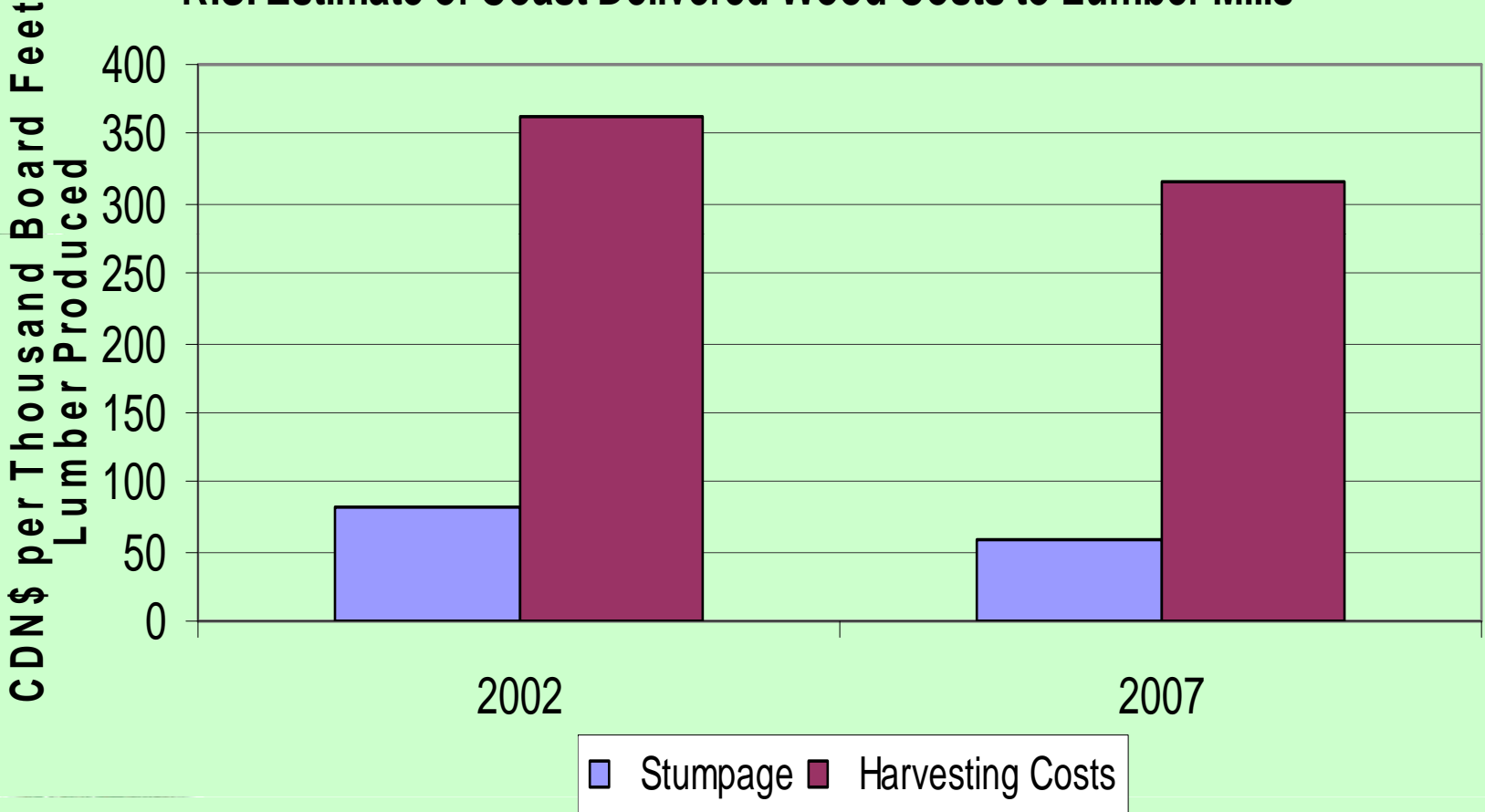
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Remaining Volume

The remaining harvest comes from different types of tenure. Long term tenure holders have additional forest management responsibilities, so a tenure obligation adjustment must be made to create the final stumpage rate.



RISI Estimate of Coast Delivered Wood Costs to Lumber Mills

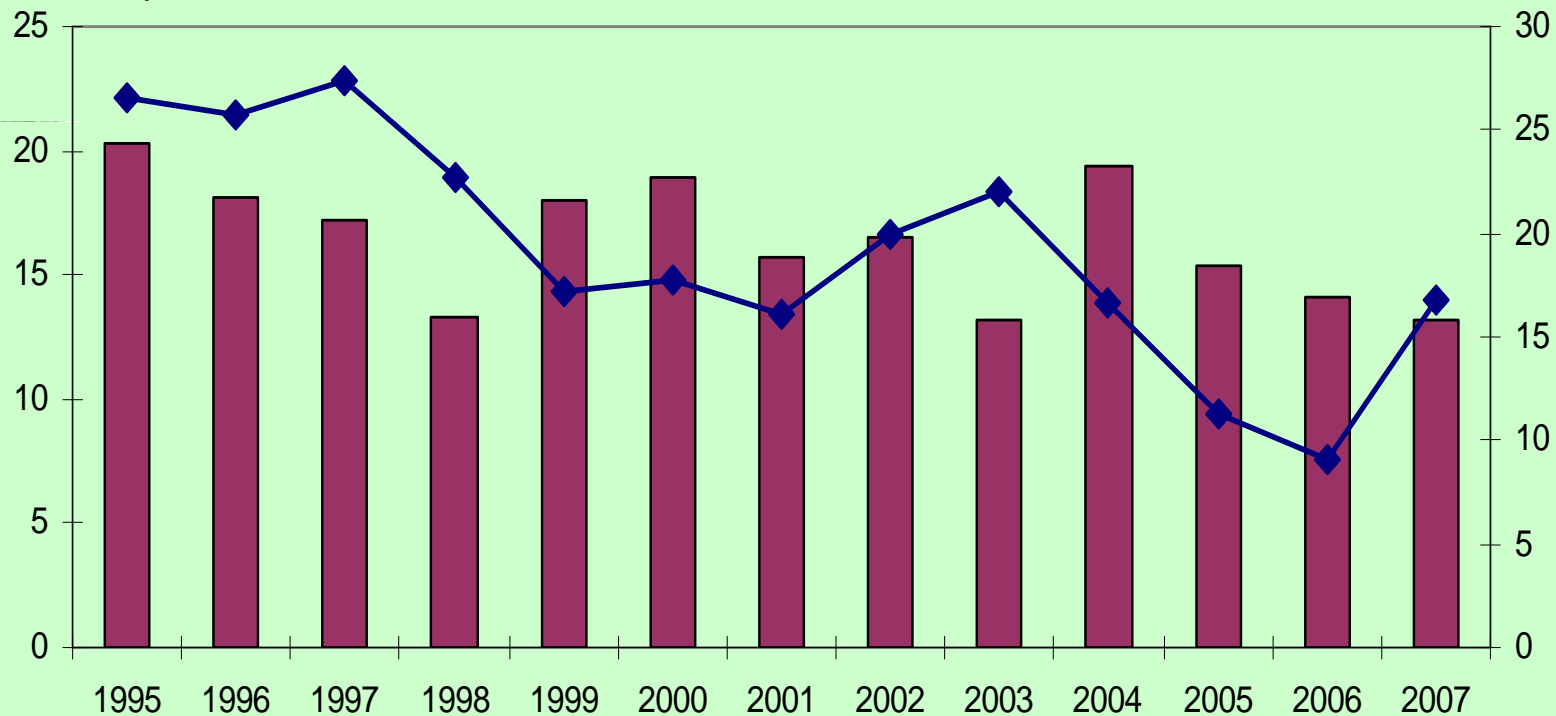


Coastal Harvest and Stumpage

BC Coast Crown Land Harvest Volume and Average Stumpage Rates

Harvest Volume
(Million M³)

Stumpage (\$/M³)

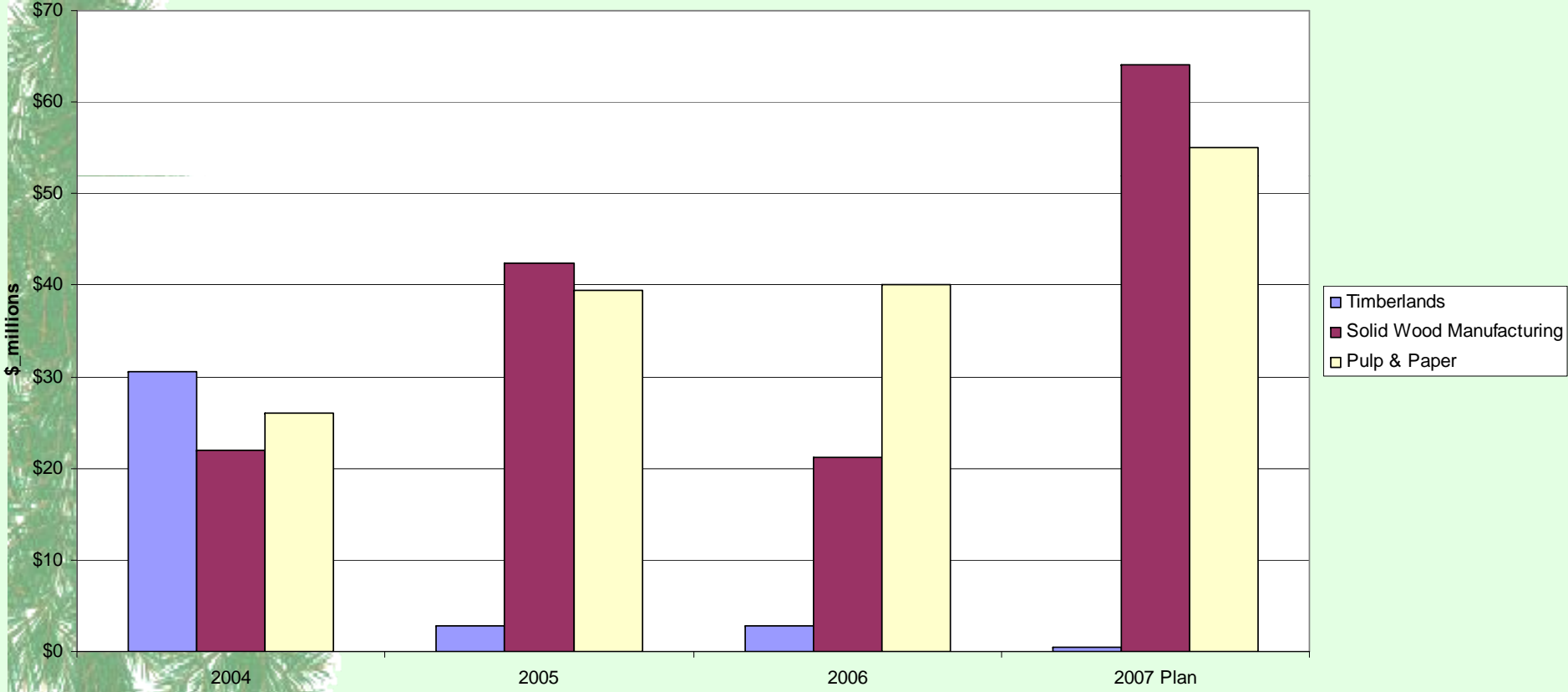


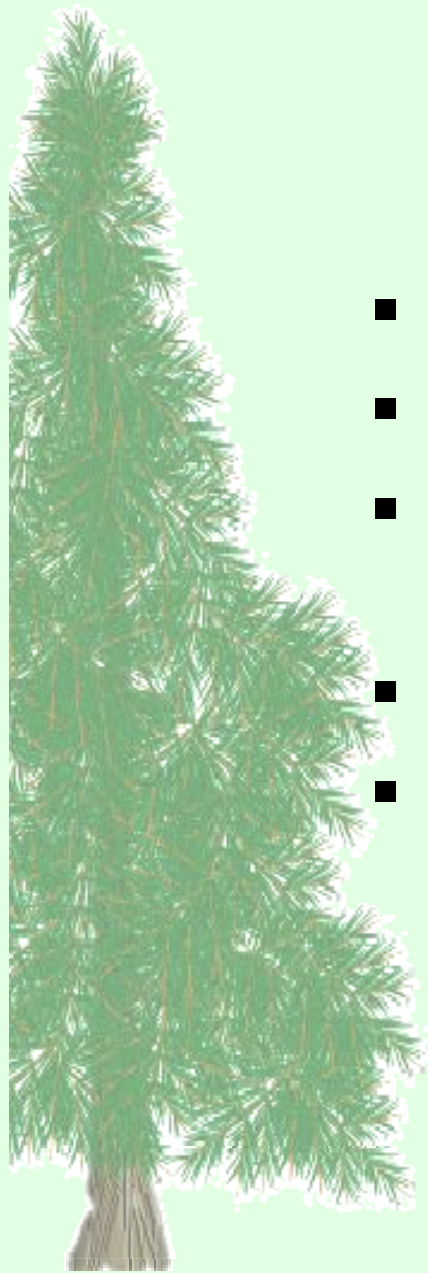
Harvest Volume

Stumpage Rate

Investment

Coast Forest Member Companies
CAPITAL EXPENDITURES



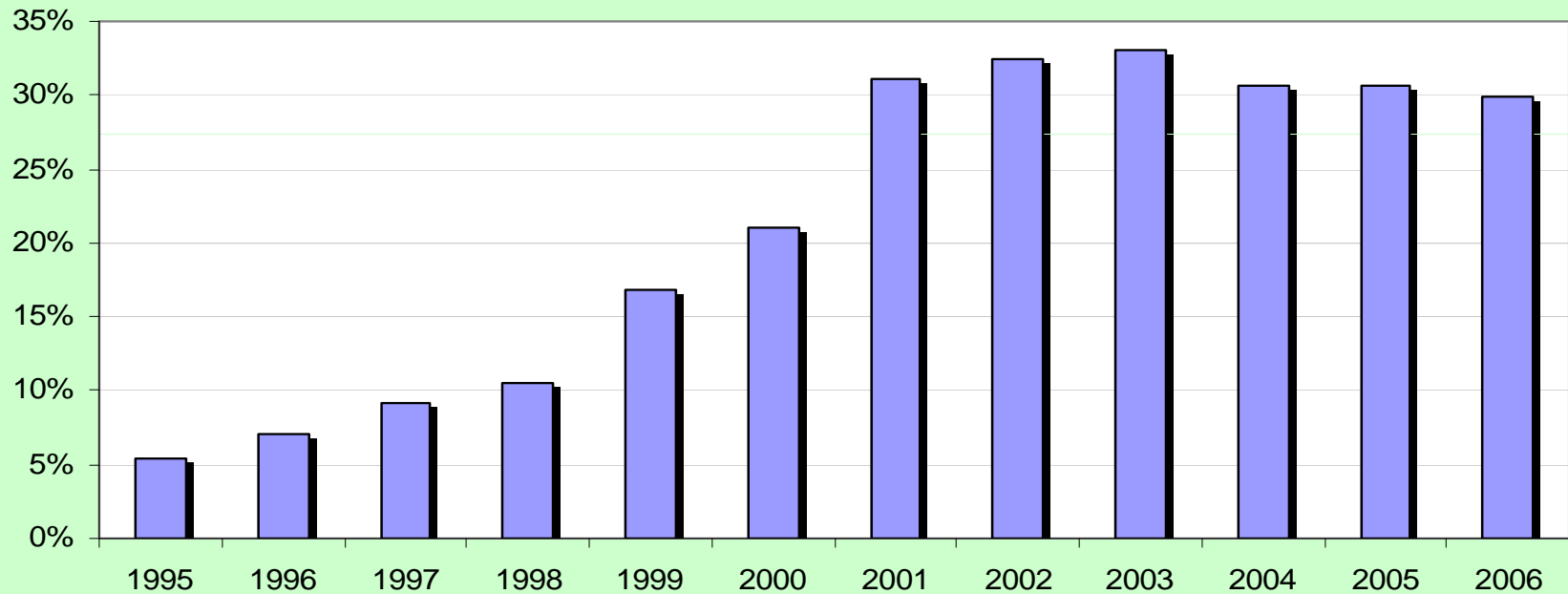


Potential for a Bright Future

- Second-growth – great timber, low cost
- Cheap transportation
- Fiber base coming on line as Interior harvest and production declines
- Proximity to US and Asian markets
- Plant and equipment is old – change is necessary

Coastal Second Growth Harvest

B.C. Coast Crown Land Second Growth as % of Total Timber Harvest Volume



Source: Revenue Branch, MOFR
Reject and waste volume excluded

What Needs to Happen?

- Government
 - Continue trend to second growth harvest
 - Continue to streamline and improve processes.
 - Continue to build on the New Relationship
- Industry
 - New markets and products
 - Investment

