

Apr. 2006 | Vol. 12, No. 4

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**South Atlantic wood inventories full in April;
quotas and price cuts in place, duration uncertain**

Broadly, U.S. South Atlantic pulpwood markets began to soften in March, which accelerated into April on bone-dry weather, while local area demand and prices varied. For some, first quarter prices were unchanged, held up by outstanding winter tract obligations and pricey off-site inventories. For others, prices slipped \$1–\$2/ton in March, even February, on shorter hauls, after spiking late in the fourth quarter and into January.

Conditions and inventories were much calmer in April, compared to January's pine panic, numerous sources said. Many mills in recent weeks have implemented delivery quotas on hardwood and pine, obvious proof of the supply turnaround.

"I could buy cheaper wood now, but have nowhere to put it," said one mill contact. "The situation is not good at all," said another. "The slowdown hurts our suppliers, none of whom are healthy."

Attention now turns to the next demand rebound, either months away, as mills build up for July fourth holidays, or sooner, if wet weather returns.

For the first quarter, hardwood roundwood prices fell an average of \$2/ton in both Coastal and Southside markets and averaged \$29/ton delivered, but »» continued on page 2

**Northeast woodyards enjoy healthy spring inventories,
since late winter freezes ended early winter panic**

Northeast U.S. pulpwood consumers are riding through the end of spring breakup season with adequate to strong fiber inventories. Weather-induced wood supply shortages ended dramatically in late winter when freezes hardened the ground and opened woodlands to loggers. Just in time for breakup, famine turned to feast and some mills narrowly escaped wood-related outages.

Pulpwood deliveries are slow currently, but are expected to pick up soon as breakup nears a predicted early end. Delivered wood prices have changed little since fourth quarter.

Sources indicate in April, however, price cuts are on the way. Most contacts in Maine, New York and Pennsylvania say they are waiting for late spring's full return of timber harvest activity to see how deep price reductions may go. Maine has already seen a \$3/ton decline in delivered hardwood roundwood, with buyers anticipating an oversupply this summer with the impending closures at Fraser Papers' Berlin, N.H., pulp mill and Georgia-Pacific's Old Town, Maine, pulp and paper mill—about 1.7 million green tons/year combined pulpwood demand (see related story p. 5). »» continued on page 4

**International Paper's day of reckoning nears on
vast wood and log supplies after timberland sales**

After recent announcements stripping away essentially all its remaining U.S. timberland, International Paper enters risky, uncharted waters in supplying its diverse mills, sources suggested. "Never before has the largest buyer shifted such a volume to the open market."

On IP's current share equal to 20% of all U.S. woodfiber and 6% in logs, other consumers "should be bracing for a new bull in the market place soon," an analyst said.

With the investor groups acquiring almost 6 million acres from the company in coming months, "these were absolute core lands, essential furnish to their pulp and solid wood mills," explained another contact. And despite lengthy supply agreements, "It's never the same, once direct control is relinquished to third parties—with distinctly different management objectives," he said.

Already, IP is buying up open market stumpage "hand-over-fist, all over the place," said a Southern source.

After the timberland liquidation, IP remains, for now, the country's largest pulpwood consumer (almost 46 million tons last year on 24 mills) and »» continued on page 6

International WOODFIBER REPORT

SOUTH ATLANTIC FULL « continued from page 1

ranged \$2–\$3/ton around that hardwood figure. Northside hardwood prices were unchanged in the first quarter at \$26/ton and ranged \$2/ton above or below that average. Many contacts pointed to continuing harvesting fuel and freight adjustments propping up prices about \$1/ton.

Region-wide, pine roundwood prices were modestly lower across the board in the first quarter, but still affected by fuel adjustments. Delivered pine eased down \$1/ton in each sub-region to average \$26–\$27/ton in the period. This reversal comes after prices surged \$3–\$4/ton in the fourth quarter in Coastal and Southside pine markets while the Northside saw prices up only \$1/ton.

Factors that portend continued slow wood demand: Surplus inventories for roundwood and chips persist at the same time markets enter spring season, a period of traditionally steep inventory reductions as mills take annual maintenance outages.

The combination likely limits new wood orders and the overall harvesting flow of log products, both hardwood and pine, into summer, sources said.

What little good news, sellers point out, is that few expect delivered prices to collapse this spring and summer, as occurred in prior years. “Mills know nowadays that dirt cheap prices derail stumpage sales and logger balance sheets,” said one.

With \$30-plus/ton prevailing in most delivered hardwood roundwood markets in Georgia in the fourth quarter (with

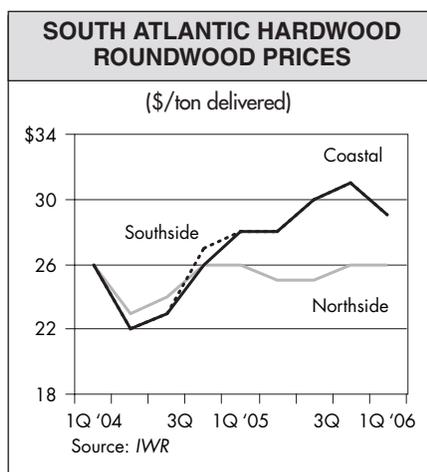
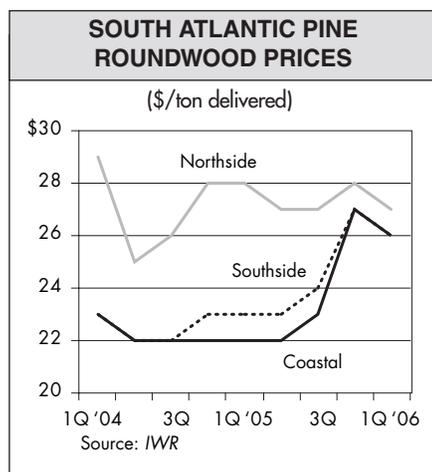
substantial volumes of hardwood landing at \$35–\$40/ton), prices reached a sustained, multi-year high there (*IWR*, Jan., p. 1). Going forward, hardwood prices should return to trend levels in coming months, a contact there said.

Pine roundwood, too, reached multi-year highs in several coastal and inland markets at the end of last year, up by \$8–\$10/ton since summer lows, to the low-to-mid-\$30s/ton for pine longwood. And those elevated prices persisted into January for many. Looking ahead, contacts there agree that any seasonal easing in prices this spring will be muted by new OSB demand in South Carolina and Georgia.

In contrast, Northside woodfiber markets experienced relatively normal winter conditions and little turmoil year to date, after a months-long drought in Virginia and North Carolina boosted supplies for most consumers.

Several sources again pointed out that International Paper mills were “rattled” over the impending sale of the company’s vast timberlands, and “buying every tract of timber they can get their hands on” (see related story). One estimate has IP mills needing to replace 30%–40% of total furnish once the traditional land base is sold off later this year.

But not all Northside mills have been flush since January. Expensive volumes of pine rail chips from far away South Carolina continued into March for a major mill in Virginia, one contact said.



U.S. SOUTH ATLANTIC WOODFIBER PRICES													
NORTHSIDE (Virginia, North Carolina)							SOUTHSIDE (inland Georgia, South Carolina)						
\$/ton	1Q 2006	4Q 2005	3Q 2005	2Q 2005	1Q 2005	% chg 2006/05	\$/ton	1Q 2006	4Q 2005	3Q 2005	2Q 2005	1Q 2005	% chg 2006/05
Roundwood (delivered)							Roundwood (delivered)						
Pine	\$27	28	27	27	28	-4%	Pine	\$26	27	24	23	23	13%
Hardwood	\$26	26	25	25	26	0%	Hardwood	\$29	31	30	28	28	4%
Sawmill woodchips (f.o.b. mill)							Sawmill woodchips (f.o.b. mill)						
Pine	\$21	21	20	20	20	5%	Pine	\$22	22	21	20	20	10%
Hardwood	\$20	20	19	19	19	5%	Hardwood	\$20	20	20	19	19	5%
Chip mill woodchips (f.o.b. mill)							Chip mill woodchips (f.o.b. mill)						
Pine	\$34	35	34	34	35	-3%	Pine	\$33	34	31	30	30	10%
Hardwood	\$34	34	33	33	34	0%	Hardwood	\$37	39	39	36	36	3%
COASTAL (northeast Florida, Georgia, South Carolina)													
Roundwood (delivered)							Chip mill woodchips (f.o.b. mill)						
Pine	\$26	27	23	22	22	18%	Pine	\$34	35	31	30	30	13%
Hardwood	\$29	31	30	28	28	4%	Hardwood	\$37	39	39	36	36	3%
Sawmill woodchips (f.o.b. mill)							US\$/green ton. Estimated average open market price over the quarter. Roundwood prices delivered to pulp mills. Sawmill and chip mill prices quoted f.o.b. supplier mill, excluding freight.						
Pine	\$22	22	21	20	20	10%							
Hardwood	\$21	21	21	20	20	5%							

INTERNATIONAL WOODFIBER REPORT PRICE TABLES

COMPARATIVE NORTH AMERICAN REGIONAL HARDWOOD ROUNDWOOD PRICES

	1Q	4Q	3Q	2Q	1Q	% chg	Annual roundwood
US\$/green ton equivalent	2006	2005	2005	2005	2005	2006/05	consumption (000) ¹
U.S. South Atlantic	\$29	30	28	28	28	4%	8,988 tons
U.S. South Central	\$29	30	30	30	30	-3%	16,238 tons
U.S. Northeast	\$31r	36	36	35	36	-14%	5,091 tons
U.S. Lake States	\$35	36	36	41	41	-14%	9,667 tons
Eastern Canada ²	\$35	33	32	34	35	0%	10,900 tons

Hardwood roundwood, excludes woodchips and softwood. Estimated, region-wide domestic market average price. Green ton equivalent. Delivered to mill. 1. Estimate based on 2003 annual data. 2. Canadian fiber prices, reported in US\$, increasingly affected by exchange rates.

COMPARATIVE NORTH AMERICAN REGIONAL SOFTWOOD ROUNDWOOD PRICES

	1Q	4Q	3Q	2Q	1Q	% chg	Annual roundwood
US\$/green ton equivalent	2006	2005	2005	2005	2005	2006/05	consumption (000) ¹
U.S. South Atlantic	\$27	28	25	25	26	4%	32,973 tons
U.S. South Central	\$27	27	27	28	30	-10%	32,169 tons
U.S. Northeast	\$35r	35	34	33	33	6%	2,308 tons
U.S. Lake States	\$38	38	34	35	35	9%	3,802 tons
U.S. Pacific Northwest	\$27	25	25	25	25	8%	697 tons
British Columbia ²	\$24	24	24	24	28	-14%	9,195 tons
Eastern Canada ²	\$37	41	41	38	38	-3%	8,275 tons

Softwood roundwood, excludes woodchips and hardwood. Estimated, region-wide domestic market average price. Green ton equivalent. Delivered to mill. 1. Estimate based on 2003 annual data. 2. Canadian fiber prices, reported in US\$, increasingly affected by exchange rates.

COMPARATIVE NORTH AMERICAN REGIONAL HARDWOOD CHIP PRICES

	1Q	4Q	3Q	2Q	1Q	% chg	Annual chip
US\$/green ton equivalent	2006	2005	2005	2005	2005	2006/05	consumption (000) ¹
U.S. South Atlantic	\$39	40	38	38	38	3%	13,464 tons
U.S. South Central	\$40	41	41	41	41	-2%	15,241 tons
U.S. Northeast	\$37	37	36	36	34	9%	4,173 tons
U.S. Lake States	\$32	32	31	31	31	3%	3,433 tons
Eastern Canada ²	\$44	44	44	43	41	7%	5,500 tons

Hardwood chips, excludes roundwood and softwood. Estimated, region-wide domestic market average price including sawmill and chip mill chips. Green ton equivalent. Delivered to mill. 1. Estimate based on 2003 annual data. 2. Canadian fiber prices, reported in US\$, increasingly affected by exchange rates.

COMPARATIVE NORTH AMERICAN REGIONAL SOFTWOOD CHIP PRICES

	1Q	4Q	3Q	2Q	1Q	% chg	Annual chip
US\$/green ton equivalent	2006	2005	2005	2005	2005	2006/05	consumption (000) ¹
U.S. South Atlantic	\$33	34	31	31	32	3%	21,156 tons
U.S. South Central	\$34	34	34	35	36	-6%	30,429 tons
U.S. Northeast (excluding spruce/fir)	\$35	35	34	31	32	9%	2,168 tons
U.S. Pacific Northwest	\$32	30	30	30	30	7%	20,715 tons
British Columbia ²	\$27	27	31	31	32	-16%	20,465 tons
Eastern Canada (spruce/fir) ²	\$57	58	58	56	56	2%	19,305 tons

Due to reductions in consumption, the U.S. Great Lakes softwood chips column has been dropped from this table. Softwood chips, excludes roundwood and hardwood. Estimated, region-wide domestic market average price including sawmill and chip mill chips. Green ton equivalent. Delivered to mill. Excludes exports. 1. Estimate based on 2003 annual data, green tons and equivalents 2. Canadian fiber prices, reported in US\$, increasingly affected by exchange rates.

DISCLAIMER: While the information contained in this table has been obtained from sources believed to be reliable, RISI does not warrant or guarantee the accuracy and completeness of the information. All prices are best estimates of prices before regular volume and contract discounts and are composite prices as opposed to median or average prices. Actual transaction prices may vary.

International WOODFIBER REPORT

NORTHEAST EASY

«« continued from page 1

“Wood-wise, we’re in good shape and the weather is just great,” said a Maine pulpwood procurement manager. Up until February’s freeze and subsequent dry weather, he added, “we paid our way out of problems.”

At the end of first quarter, mixed hardwood roundwood averaged \$34/green ton delivered in Maine, down \$3/ton from fourth quarter and down \$3/ton from first quarter 2005. Hardwood chips in Maine averaged \$45/ green ton, unchanged from fourth quarter while up \$5/ton from \$40/ton a year ago. Spruce/fir roundwood was \$45/ton, down \$1/ton from fourth quarter and down \$3/ton from a year ago.

In Pennsylvania and New York, hardwood roundwood averaged \$27/ton in the first quarter, down \$1/ton from fourth quarter and up \$1/ton from a year ago. Hardwood chips remained unchanged since second quarter 2005 at \$28/ton, up \$1/ton from first quarter 2005. Softwood roundwood averaged \$33/ton in New York and Pennsylvania, down \$2/ton from last quarter and level from a year ago.

Maine in holding pattern

Maine’s wood buyers are treading lightly out of breakup, relieved that wood deliveries picked up in February after a shortage scare brought on by one of the worst win-

ters for logging in recent memory, sources said (*IWR*, Feb., p. 6). Mills did not go deep into price increases, however, even as woodyards reached critical levels. Similarly, a wait-and-see approach is being taken by most pulpwood procurement staffs into late spring.

Adding to the current market’s conservatism is uncertainty surrounding the Old Town mill closure. The governor’s office is trying hard to court buyers for the facility, but most industry sources seriously doubt Old Town can be saved, citing its age and high operating costs. “I have a feeling it won’t come back online,” said one Maine wood buyer, “but there is a lot of political pressure coming from the governor’s office.”

G-P operates a hardwood pulp and tissue mill at Old Town, as well as satellite chip mills at Milo, Portage, Costigan, and Houlton, Maine. The pulp mill consumes approximately 725,000 green tons/year of wood. Fraser’s pulp mill at Berlin consumed 920,000 tons/year of pulpwood at full capacity, but no efforts are being made to reopen it.

Old Town will close in mid-May and has already stopped buying wood. The effects were immediate, with a dealer reporting, “We’re selling hardwood pulpwood, and there’s already been a \$5/cord decrease (approximately \$2/ton). More price drops are coming.”

But pulpwood consumers are being cautious. “I’ve heard of some decreases, but I will wait and see before making any cuts,” said one. Another added, “I’d like to see consistent wood flow come out of this rather than big price drops.”

Overall, one pulpwood dealer said, “The mills here are in a good position with nearly 900,000 cords (mostly hardwood) consumption off the market. And the softwood markets are filled.”

Another pulpwood and sawlog dealer added, “There’s more spruce and fir available now than anything.” The coming closures of Berlin and Old Town have not much effect on markets, he pointed out, since the mills stopped buying wood about the time breakup started. “Berlin definitely

won’t come back,” he said, “and Groveton probably won’t either.” In January, the region also lost Groveton Paper Board in Groveton, N.H., a market for about 150,000 tons/year of hardwood pulpwood (*IWR*, Jan., p. 4).

A Maine hardwood procurement executive said, “The next challenge is to see what will happen if Old Town reopens. If not, we’ll look at price reductions. Berlin is helping, too.” Any price adjustments, he said, will be tempered by the prices of fuel, equipment, and stumpage.

Considering suppliers, the executive said, “I don’t think the logging force will be hurt (by the pulp mill closures). There’s enough going on with biomass to keep them healthy.”

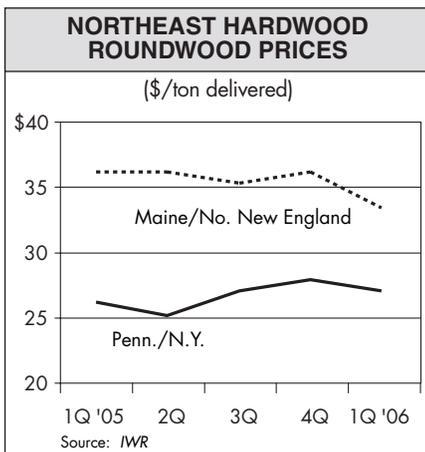
Currently, hog fuel markets are tight across Maine and northern New England where wood-to-energy producers run strongly. Biomass (ranging from bark to whole-tree chips) averaged \$32/ton delivered during first quarter, equalling some sawmill residual pulp-grade chips.

Penn., N.Y. in good shape

As in Maine, wood buyers in Pennsylvania and New York struggled with low inventories through a warm, wet winter. Freezes and drier conditions prevailed, though, at the end of the winter logging season, giving woodyards a needed boost, to the point where some are on quota currently.

“January gave us a scare, but February and March were favorable,” said a pulpwood procurement manager in Pennsylvania. “Now everyone has enough logs—the pulp mills and the sawmills both. The sawmills had idled back to three or four days operation per week, and some ran out of logs. But now the sawmills have more logs than they want, so logging crews are going after pulpwood.”

Another Pennsylvania procurement manager said better pulpwood deliveries have given the mills an opportunity to reduce the intake of long-distance and more expensive wood. “We’re backing off of double-handled wood, trying to manage inventory rather than cut prices.”



U.S. NORTHEAST WOODFIBER PRICES

\$/ton	1Q 2006	4Q 2005	3Q 2005	2Q 2005	1Q 2005	% chg 2006/2005
Maine (delivered)						
Hardwood roundwood	\$34	37	36	37	37	-8%
Spruce/fir roundwood	\$45	46	46	51	48	-6%
Hardwood chips	\$45	45	44	44	40	13%
Pennsylvania/New York (delivered)						
Softwood roundwood	\$33	35	35	33	33	0%
Hardwood roundwood	\$27	28	27	25	26	4%
Hardwood chips	\$28	28	28	28	27	4%

All prices delivered to mill. Chips include sawmill residuals, chip mill, and whole-tree.

A New York source said pulp mills there were reaching long distances as well for furnish prior to mid-February's weather turnaround. "We're in pretty good shape here now."

Northeast pulp shuts could ease wood tensions

The announced closures of pulp mills at Fraser Papers in Berlin, N.H., and Georgia-Pacific at Old Town, Maine, next month will open a 1.65 million green ton/year hole in Northeast regional pulpwood demand, easing pressures on a tight and competitive market, sources say. Efforts, however, are underway by Maine Gov. John Baldacci's office to find a buyer for Old Town, while Berlin officials are courting at least two low-grade wood users for their city.

A spokesman for Baldacci said, "Our intention is to sell the Old Town mill. There are nine tire-kickers currently going through due diligence, so we're cautiously optimistic." G-P is also interested in selling its four affiliated chip mills in Milo, Portage, Costigan, and Houlton, Maine, the spokesman added. Otherwise those, too, will go idle.

In Berlin, New Hampshire Public Service (NHPS) is in the talking stages of locating a wood-to-energy mill there. City officials are also trying to attract New England Wood Pellet for development of a wood pellet manufacturing facility, but the company suggests it is not interested.

The Fraser mill consumes an estimated 920,000 green tons/year of hardwood and softwood at Berlin, while G-P consumes about 725,000 tons/year of mixed hardwoods at Old Town. Paper operations at Berlin will remain open.

Any enthusiasm over increased pulpwood availability among competitors is tempered with the realization that the closures are indicative of an industry facing

challenges from increased energy, fuel, and raw materials costs. "I hate to see people lose their jobs," said one Maine wood buyer, "since we're all competing against Brazil. But I admit the closures will help alleviate some of the wood procurement pressure.

"It's probably good news, but not good news for the industry," he added. "It will make our lives easier if a buyer is not found for Old Town." Maine forest products industry veterans contacted by *IWR* are unanimous in the opinion that Old Town will not restart.

The closures, said another Maine source, "are symptomatic of the stress the whole U.S. pulp and paper industry is under—particularly in the Northeast—with operating efficiencies and government policies. Both of these mills have been saved at least once, and eventually will go down for the count if they haven't already. The tax policies make it hard to invest in aging mills."

Maine's thirsty pulpwood markets will quickly absorb the wood left behind by the two closures, the source added, but in the long run "there will be spot surpluses. There will be a redistribution of the logging force, and where they'll go to market wood.

"Of course," he added, "one would expect the closures will bring relief to wood costs. But procurement organizations must beware of the cost reductions back in '99, and remember how they squeezed the logger between the landowner and the mill. We need to give this time."

Wood pellet expansion

New England Wood Pellet (NEWP), despite its cool response to Berlin's urgings, is in an expansion mode, responding to a spike in demand that caught wood pellet and pellet stove manufacturers short. A company spokesman said increases in fuel triggered by hurricanes Katrina and Rita last year "caused pellets to take off. The industry can't keep up with the demand.

"At present we are not considering Berlin," the spokesman noted, "but won't exclude Northern New England" for further development.

NEWP is currently expanding its Jaffrey, N.H., plant and will build new facilities in Skyler, N.Y., and an undisclosed location in Massachusetts, increasing pellet production from 75,000 tons/year to 300,000 tons/year by 2008. Each facility will use between 150,000 and 175,000 green tons/year of clean sawmill residuals or whole-tree chips to operate (grades typically used in pulp production).

The \$1.5 million improvement plan at the New Hampshire plant will be finished this summer, the company spokesman said. Work on the New York mill will start in July with a scheduled spring 2007 opening. The Massachusetts manufacturing facility is scheduled for operation in 2008, although a bulk rail and bagging operation for pellets from British Columbia (a 4,200 mile haul) will commence this fall.

The New York and Massachusetts projects are expected to cost \$16 million.

NHPS entering biomass

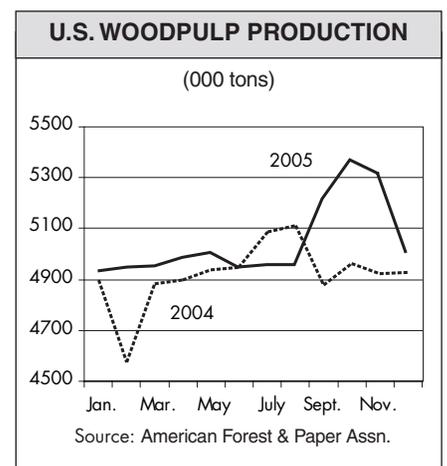
For NHPS, biomass energy is a new venture. A company spokesman said, "We're not necessarily talking about Berlin, but an additional plant somewhere in the state. Fraser's closing in May generated discussion in Berlin, since we're looking for more power production and they are looking for a source to consume wood. But we're looking at the entire North Country."

The stumbling block for NHPS is a deregulation law that put a moratorium on the company's ability to pick up additional market share. "We cannot build a new plant without a change in the current law," the spokesman noted.

NHPS will enter the wood-to-energy business soon with completion of its Northern Wood Power project, a 50 MW facility at Portsmouth, N.H., which will consume 400,000 tons/year of whole tree

U.S. WOODFIBER & PAPER STATISTICS						
		Nov. 2005	Dec. 2005	Jan. 2005	Annual rate	% chg. 2006/05
Pulpwood Consumption	000 cords	8,665	8,750	8,986	106,000	3%
Woodpulp Production	000 tons	5,384	5,440	5,590	66,050	3%
Paper Production	000 tons	7,451	7,540	7,750	93,050	3%
Export/Import Data		Oct. 2005	Nov. 2005	Dec. 2005	Annual rate	% chg. 2005/04
Chip Imports	000 tons	52	53	6	905	-6%
Chips from Canada	000 tons	8	9	4	178	56%
Chip Exports	000 tons	201	237	235	2,673	-2%
Roundwood Exports	000 tons	74	50	56	738	-54%
Chips to Canada	000 tons	92	82	92	1,158	-15%
Roundwood to Canada	000 tons	39	52	39	557	-34%

Source: American Forest & Paper Assn.



International WOODFIBER REPORT

chips and hog fuel. The \$70 million project replaces an existing coal-fired boiler, and being 90% complete, is scheduled for start-up this year (*IWR*, Nov. 2004, p. 6)

IP'S RECKONING

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second largest sawlog consumer (about 12 million tons on 19 mills) with "much less control over local markets and intra-mill supply sharing—especially during wet weather emergencies so typical in the winter," said another.

Little is yet known to the specifics of the multiple supply agreements, other than IP's statement they encompass about 20% of annual requirements, well below historical norms, when IP once controlled over 10 million acres.

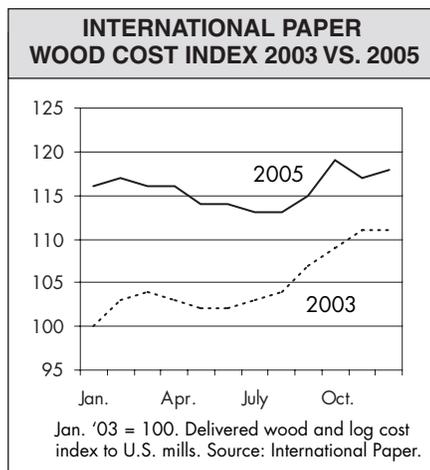
Separately, IP may be near selling (or closing) paper mills in Bucksport and Jay, Maine, Quinnesec, Mich., Sartell, Minn. and Roanoke Rapids, N.C., each with varying supply agreements with the new timberland owners. After that, the company is exploring the sale of all its solid wood mills.

In unusual detail in February, IP revealed numerous wood cost increases which jolted financial performance last year, while it still controlled those productive lands.

Woodfiber and log costs "skyrocketed to a peak" in the fourth quarter, the company reported, with incremental costs surging \$21 million versus the already inflated third quarter, and up \$46 million compared to the fourth quarter a year ago (*IWR*, Feb. p. 8).

"To be fair, nearly all mills, pulpwood and logs, experienced escalating costs last year," to varying degrees, noted another contact.

On a full year basis, IP wood costs blew up \$191 million in 2005 compared to the prior year.



Looking back to better times, IP noted its wood costs were fully \$395 million lower in 2002. On a percentage basis, IP reported fourth quarter wood costs were up almost 20 points compared to Jan. 2003 (see chart).

Low post-hurricane timber prices persist

Stumpage prices remain depressed in lower Louisiana, Texas and Mississippi as areas clean up last year's hurricane damage. With the market glutted with wood, low stumpage prices are "probably going to persist for the remainder of the year," said an analyst at the recent Louisiana State University Forestry Forum. After that, timber prices should begin a slow improvement, as markets absorb the salvage wood.

Delivered prices, in contrast, have been propped up, due to high salvage and trucking costs.

Near term, the window for salvaging downed timber is closing with the onset of spring and degradation. Roughly 20%–30% of downed timber from Katrina will be salvaged, experts said (*IWR*, Oct. p. 2).

In addition to low timber prices, the industry also is facing a scarcity of logging crews, another speaker noted, as many are still working on hurricane cleanup along the coast.

"Katrina has done more damage than anything we can think about," said another speaker.

Mississippi forests suffered severe damage from Katrina as far north as Interstate 20, and light damage was reported all the way to Tennessee.

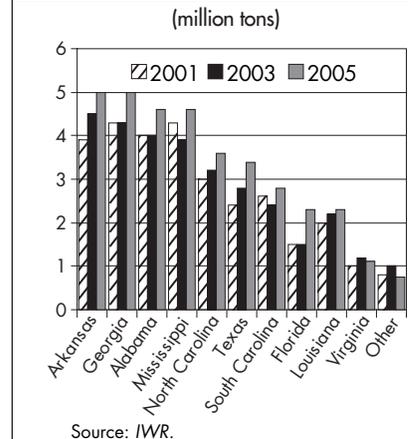
Katrina damaged 14.1 billion bf, and Rita damaged another 3.8 bbf, he said. Mississippi suffered the most combined damage with 10 bbf, followed by Louisiana with 3 bbf and Alabama on 1 bbf. Rita inflicted damage to another 2 bbf in Texas.

One presenter warned that Louisiana's forest fire-fighting capability is dangerously low because of budget cuts. FEMA crews have prevented forest fires from getting out of hand, so far, in south Louisiana recently, he said.

Southern pine tops all-time high in 2005

Surprising to many, Southern pine lumber and residual chip output are highest in Arkansas, which narrowly edged out second placed Georgia in 2005. Southern pine lumber last year totaled 19 billion board feet, the highest volume on record and a 5% increase compared to the previous year.

SOUTHERN PINE SAWMILL CHIP OUTPUT 2001-2005



Topping an estimated 35 million tons last year in the South, residual pine sawmill chip output accounts for fully 30% of all softwood supply for the region's pulp mills, and the proportion has grown in share for more than five years running.

Arkansas posted the largest volume gain since 2001, up 25%, to lead the South on about 5 million tons last year, just ahead of Georgia. Florida marked the highest percentage gain, up just over 50%, to 2.3 million tons of sawmill chips.

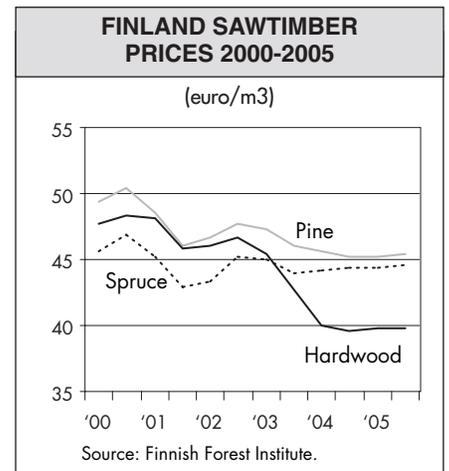
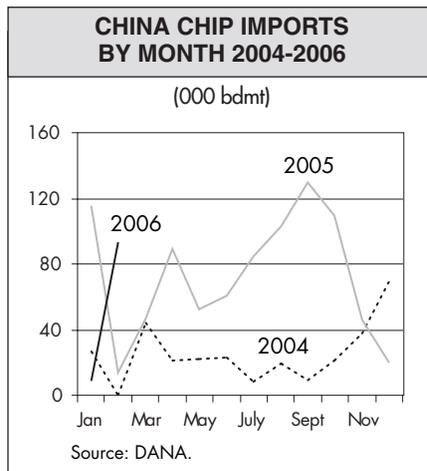
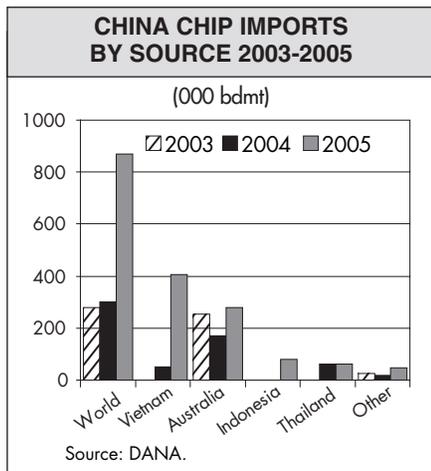
Going forward, many consuming pulp mills will increasingly rely on residuals, as both sawmill capacity increases and competition for roundwood from new OSB mills sets records each year.

China woodfiber demand and trade surge

A lack of woodfiber is one major hurdle looming for China's paper and board manufacturers planning significant growth over the next decade, according to a recent report.

Indeed, just last year, China emerged as the second largest woodchip importer, jumping past Korea and Taiwan in one leap, noted *The International Pulpwood and Resource Trade Review (IPR)*, published by DANA Ltd. Importantly, "It appears that the government in China has developed a policy to encourage more domestic wood pulp production," explained *IPR*.

Imports of woodchips (all hardwood) in China increased almost 200% in 2005 over the previous year, with most of the new volume coming from Vietnam and Australia. U.S. fiber suppliers have not enjoyed the run-up by China, with only one vessel of hardwood chips shipped last year (by Weyerhaeuser).



Comparatively slow growth in fiber demand in other parts of the world has been one factor limiting the impact of robust Chinese growth on fiber prices, including recovered paper and market pulp, notes a related new report from RISI.

And until recently, scarce domestic supplies of woodfiber, along with the huge capital cost of a pulp mill, have constrained domestic wood pulp production in China, RISI said. For years, the largest share of Chinese paper and board, by far, has been furnished by recovered paper, and more recently, imported market pulp. At the same time, existing non-wood (agricultural crop) fiber consumption in China (once significant) will continue to decline as a proportion of total fiber use, *IPR* noted.

Meanwhile, record levels of sawlog imports continue in China, supporting explosive growth in its furniture and wood based panels sectors (*IWR*, Feb., p. 9).

Going forward, development of new wood pulp production there will be possible “only to the extent that sufficient woodfiber is available,” *IPR* cautions. Although the government has policies and incentives to encourage establishment of new plantations—aiming aggressively for 13 million hectares of fast-growing, high yield plantations between 2001 and 2015—“actual planting has been much slower.”

In addition, finding sufficient land of suitable quality for planting has proven difficult, and land rentals are often much higher than most pulp companies choose to pay, *IPR* noted. And, there is stiff competition from new domestic MDF and plywood industries for this same small plantation wood.

Imports lurch up/down

As with much of the Asian forest products trade, it is often difficult for mills in China to accurately time rapidly expanding and long distant imports. As example, most

of the five Chinese pulp mills which imported woodchips in 2005 “tended to overbuy and built up excess inventories” into this year, the report noted.

And “Nowhere was this more apparent than at the APP paper mill on Hainan Island. Despite repeated media news concerning lack of wood for this mill, in reality the situation was been just the opposite.” Prior to mill start-up, an adequate inventory of 700–800,000 green metric ton (gmt) was gathered. After reaching full production last October, the chip inventory swelled to 1.6 million gmt, much more than needed.

As a result of the surplus, APP suddenly cut off all its woodchip suppliers in early November, *IPR* noted. This resulted in a near stoppage of all imports, with volumes falling from more than 100,000 bdmt/monthly from August through October of last year—to a low of less than just 10,000 bdmt in January. Imports rebounded recently in February, although other mills likely purchased much of this, *IPR* said.

Chip exports persist

Despite the domestic demand growth, “China remains an important chip exporter,” the report stated. “This is due in part because prices paid by domestic pulp mills in most cases must match the export price, so chip producers have a strong incentive to maintain some export flow,” according to *IPR*.

In fact, prices for chip exports have increased significantly in the last two years, once unpegged from benchmark Australian eucalyptus prices. In the first half of 2004, export prices for eucalyptus in southern China were US\$93/bdmt, f.o.b. Chinese port. Then prices were unpegged in the second half, increasing to \$101/bdmt, and rising to \$107/bdmt in the first half of 2005, a cumulative gain of 15%.

Separately, in May of 2005, the Chinese government removed its tax rebate for woodchip exports, effectively a 13% reduction in net price for exporters.

Stora Enso, UPM face price-fixing probe

Finland’s competition agency said in early April it had asked the country’s biggest forestry and paper companies to respond to allegations of price fixing in timber purchases.

The Finnish Competition Authority alleged that Stora Enso (Europe’s largest wood buyer), UPM-Kymmene and forestry cooperative Metsaliitto had illegally engaged in price collaboration and exchanged information on private stumpage purchases. The allegations involved sales in Finland between 1997 and 2004.

Average stumpage prices for sawtimber declined 10% between 2000 and 2005, from €48/m³ to €43/m³, according to the Finnish Forest Institute.

The agency gave the companies until May 15 to respond and said it would then decide whether to take the matter to the Finnish Market Court.

UPM-Kymmene said it had voluntarily informed the authority about some questionable practices after its own internal investigation. The company has been granted conditional immunity in the investigation.

Wood inventory sold from Stora N.S. yard during long closure

Stora Enso is selling all the pulpwood inventory from its idle Port Hawkesbury mill in Point Tupper, N.S., recognizing the combination of competitiveness issues and a labor stalemate could keep the mill down beyond the useful life of the fiber. The facility consumes approximately 1.2 million green tons of balsam spruce and fir pulpwood per year, producing newsprint and supercalender papers.

The provincial government gave Stora permission late last month to sell or export wood harvested on crown land. The logs are currently being sold to Great Northern Timber International, which operates an export facility at Sheet Harbour, N.S.

Stora said, "We do not have markets established yet for all the wood... Due to distance and cost it is unlikely that it will be economical to ship wood to other Stora Enso mills but we will look at this option."

The approaching summer will dry the wood too much for use at Port Hawkesbury, which requires fresh timber. Stora is still harvesting wood from its allotments on 1.5 million acres of crown land to feed softwood and hardwood sawlog customers (including Ligni Bel, Irving, Williams Brothers, Group Savoie, and other smaller mills). Stora also sources wood from 59,000 acres of freehold land.

Stora recently announced that even if it can work out a new labor contract with workers, changes need to be made to provincial taxes and energy rates before machines can restart. Company officials said the mill has not been profitable for eight of the last 10 years, blaming (in part) tax and regulatory burdens combined with an increase in electricity rates from Nova Scotia Power.

A Stora spokesperson told *IWR* the company went back into negotiation with union members April 14. "The priority is to get the labor agreement settled, but at the same time the provincial government and Nova Scotia Power know what our challenges are and we have to leave it to them to work out the solutions to bring us relief to our high costs in power and realty/capital tax system.

"The mill was shut down since Dec. 24," she added, "because we couldn't get enough employees to operate through Christmas. With the threat of a strike since early December the company therefore felt it best to keep the mill closed until a collective agreement was signed. This didn't happen and the company decided to lock-out the union on Jan. 26."

Aid tops C\$3 billion to forest industry across Canada

Government aid to Canada's forest products industry crossed the C\$3 billion mark since late March with nearly C\$1 billion added in new incentives in Quebec, New Brunswick and Alberta. The industry's welcomed infusion of federal and provincial moneys started last fall in an attempt to mitigate factors including an unfavorable dollar exchange rate, high energy costs, high labor costs, diminished fiber availability, and slack markets for most products.

Quebec brought its aid to a total C\$1.1 billion over four years, adding an additional C\$925 million to C\$167 million already

announced. The funds include loans to forest companies, with money geared to offset softwood lumber duties to the U.S. The plan also includes silvicultural investment; support to forest sector workers; an increase in capital tax credits; tax credits for the construction and repair of forest roads; and tax credits for private woodlot owners.

New Brunswick will increase its support to the industry with tax cuts and investment rebates in addition to C\$250 million in funding announced earlier this year (*IWR*, Jan., p. 7). The province will lower the general corporate income tax, and eliminate the large corporation capital tax by the end of 2008.

In addition, rebates are offered forestry companies for investments in equipment—providing an estimated C\$18 million in assistance.

Faced with pulp and lumber production closures, **Alberta** forest products producers and government officials will study measures to save the industry. The Alberta Forest Products Assn. (AFPA) and the provincial government will spend C\$300,000 over the next year analyzing competitiveness challenges.

West Fraser's Hinton, Alta., mill will close a pulp line, reducing softwood consumption at the facility an estimated 280,000 m³/year. Recent sawmill closures include: Atlas Lumber at Blairmore; Canfor at Hines Creek; Weyerhaeuser at Grande Cache; and Seehta at Red Earth. AFPA is also concerned about maintaining available wood supplies, lost to oil and gas development on crown lands, at the expense of about 800,000 m³/year of wood.

West Fraser Timber will invest C\$20 million to improve productivity of the No. 2 pulp line at its Hinton, Alta., pulp mill. The No. 1 line will close during fourth quarter, eliminating 17% of the facility's production capacity (see related story, p. 8)... **Western Forest Products** completed the acquisition of Canfor's Englewood Logging Div. on Vancouver Island for C\$45 million plus closing adjustments of approximately \$2.7 million. In a related transaction, Western also executed a 40-year agreement to supply woodchips and pulp logs to a partnership of Canfor and Oji Paper at the Howe Sound pulp and paper mill... **Weyerhaeuser** will immediately close its Big River and Wapawekka sawmills in Saskatchewan related to the closure of the Prince Albert market pulp and uncoated freesheet paper mill there. The softwood sawmills provided wood chips and hog fuel to the pulp mill. Big River produces 230 mmbf/year of lumber, while the joint venture Wapawekka mill produces 70 mmbf/year. The Prince Albert pulp mill consumed approximately 575,000 green tons/year of softwood... **Catalyst Renewables** is meeting with central New York loggers to develop a supply of 400,000 tons/year of whole-tree chips for a \$70 million biomass energy plant in Oneonta, N.Y. Completion of the mill is targeted for 2008. Catalyst operates a biomass energy plant in Lyonsdale, N.Y., with similar wood consumption... **Ainsworth's** Grand Rapids, Mich., OSB mill is down until May 10 for press equipment repair. The outage will reduce wood consumption an estimated 60,000 tons at the 390 mmsf/year facility (3/8" basis)... **Weyerhaeuser** purchased the operations of Budres Lumber of Grand Rapids, Mich., for an undisclosed sum from its private owner.

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INTERNATIONAL WOODFIBER REPORT

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Staff

Chris Lyddan, Executive Editor.....clyddan@risiinfo.com; 804.358.0144
 William R. Perritt, Contributing Editor.....pulpwood@verizon.net; 540.298.1566
 James McLaren, Contributing Editor.....jmlclaren@risiinfo.com; 415.947.3601
 Julia Kilcoyne, Director, Print Production.....jkilcoyne@risiinfo.com; 781.734.8955
 Paul Blackwood, Print Production Specialist.....pblackwood@risiinfo.com; 781.734.8935

Editorial offices

Headquarters: 55 Hawthorne, Suite 510, San Francisco, CA 94105; 415.947.3600; fax 415.947.3700.
 Web www.risiinfo.com, email info@risiinfo.com

Subscriptions and customer service

Call 866.271.8525 (U.S. & Canada) or 32.2.536.0748 (outside the U.S. & Canada); visit www.risiinfo.com/catalog (new subscriptions) or www.risiinfo.com/cs (online customer service); email info@risiinfo.com; fax 818.487.4550, or mail to *International Woodfiber Report*, P.O. Box 16586, North Hollywood, CA 91615. Fax and online editions also available. Annual rate: \$517 (U.S. & Canada).

Published 12 times per year on a monthly basis. Canadian GST Permit 124513185.

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